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Gambling with People's Lives

What the World Bank's New "High-Risk/High-Reward" Strategy Means for the Poor and the Environment

A Report by

Environmental Defense
Friends of the Earth
International Rivers Network

Gambling with People's Lives — What the World Bank's New "High-Risk/High-Reward" Strategy Means for the Poor and the Environment

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A farmer woman displaced for the Bujagali Dam in Uganda. The Bujagali Project is one of the World Bank's latest high-risk projects. It is riddled with controversy and has prolonged the deadlock in Uganda's power sector. The people who have been displaced pay the highest price. (Photo: Lori Pottinger, IRN)

Children from a village for internally displaced persons near an oil terminal to be used for the proposed Baku-Tbilisi-Ceyhan pipeline, a project the World Bank is considering financing at press time. Many of the village residents are skeptical of the project's promised benefits. (Photo: Nino Gujaraidze, Green Alternative)

"We will not move!" Activists of the Protect the Narmada Movement refuse to leave the villages that are being submerged by the Sardar Sarovar Dam in India's Narmada Valley. Sardar Sarovar is one of the World Bank's early high-risk projects. (Photo: Narmada Bachao Andolan)

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Environmental Defense is a leading U.S.-based nonprofit organization representing more than 300,000 members. Since 1967, it has linked science, economics and law to create innovative, equitable and cost-effective solutions to society's most urgent environmental problems.

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Friends of the Earth International is a federation of 68 environmental organizations from all over the world that campaign on the most urgent environmental and social issues of our day, while simultaneously catalyzing a shift toward sustainable societies. Friends of the Earth US is the U.S. arm of the federation.

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International Rivers Network (IRN) supports local communities working to protect their rivers and watersheds. IRN works to halt destructive water development projects, to promote sustainable alternatives, and to change the policies of financial institutions, governments, and the dam industry.

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Acronyms and Abbreviations

BTC	Baku-Tbilisi-Ceyhan (pipeline)
CAO	Compliance Advisor/Ombudsman
CDD	Community-driven development
DRC	Democratic Republic of Congo
EA	Environmental Assessment
EBRD	European Bank for Reconstruction and Development
EI	Extractive Industry
EIA	Environmental Impact Assessment
EIR	Extractive Industries Review
FY	Financial Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
IAG	International Advisory Group
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IRN	International Rivers Network
IUCN	International Union for the Conservation of Nature (World Conservation Union)
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-governmental organization
OED	Operations Evaluation Department (World Bank: IBRD/IDA)
OEG	Operations Evaluation Group (IFC)
OEU	Operations Evaluation Unit (MIGA)
TBS	Tarun Bharat Sangh (Indian Youth Movement)
UN	United Nations
UNDP	United Nations Development Programme
WBG	World Bank Group
WCD	World Commission on Dams

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Foreword

"For many countries that need to make major infrastructure investments to complement management reforms, the Bank often become [sic] a reluctant, unpredictable and expensive partner," the World Bank's management asserted in February 2003 in a major new water strategy paper. "To be a more effective partner, the World Bank will re-engage with high-reward/high-risk hydraulic infrastructure, using a more effective business model."[1] In October 2002, the Bank's Board of Directors also endorsed a high-risk approach to the forestry sector; the new Forest Policy allows Bank support for commercial logging operations in rainforests.

The environmental destruction, social upheaval, corruption and repression that are associated with the World Bank's high-risk projects have created tremendous public controversy since the 1980s.[2] This is particularly true for large dams, for projects that affect tropical forests, and for investments in the oil, gas and mining sectors. In the 1990s, the World Bank became more cautious and refrained from funding some of the most contentious dam, forestry and mining projects. Many non-governmental organizations welcomed this cautious approach as one of the few effective environmental reforms of James D. Wolfensohn's presidency at the World Bank.

The Wolfensohn presidency is now set to conclude with a renewed focus on "high-risk/high-reward" projects. This focus, especially for the forestry and water sectors, has been the subject of heated debates within the Bank's management and Board of Directors, and in public. As the World Bank begins implementing a renewed high-risk strategy, certain questions need to be asked:

- What is the World Bank's track record in earlier high-risk projects?
- Has the World Bank learned from past mistakes?
- Does it have the necessary instruments to adequately appraise and implement high-risk projects?
- Who will bear the burden of such projects if their high risks cannot be contained and mitigated? Who will reap the rewards?

The following report examines these questions at a critical juncture. It analyzes how the World Bank's approach to environmental and social risk has changed over time and evaluates the Bank's track record in high-risk projects in the water, forestry, oil, gas and mining sectors. The report presents examples of alternative development approaches that are marked by low risk and high rewards and culminates with some general conclusions and a series of recommendations.

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September 2003

[1] World Bank (2003) "Water Resources Sector Strategy: Strategic Directions for World Bank Engagement," p. viii.

[2] The term World Bank in this report generally includes all financing arms of the World Bank Group (IBRD, IDA, IFC and MIGA).

Executive Summary

Throughout the 1980s and early 1990s, environmental organizations working with affected communities produced mounting evidence that the World Bank was financing development disasters in sectors such as forestry, water and mining. Road projects opened up the Amazon forests for commercial logging. Large dams displaced hundreds of thousands of people without adequate compensation, resettlement and rehabilitation. Mining operations caused widespread environmental devastation in countries of the Pacific Rim. Such projects demonstrated that the Bank was not able to appropriately analyze, contain and mitigate social and environmental risks.

Responding to this body of evidence, the Bank was remarkably open in acknowledging its responsibility for past failures. Regarding the environment, "the World Bank has been part of the problem in the past," the Bank's President Barber Conable admitted in 1987. "Benefits tend to be overstated, while social and environmental costs are frequently understated," according to a high-profile 1992 investigation of the Bank's Sardar Sarovar Dam in India. "Assertions have been substituted for analysis," the investigation concluded. In 1992, another World Bank task force found that "the credibility of the Bank's appraisal process is under pressure," and that "appraisal becomes advocacy."

In the face of sustained international criticism, the World Bank became more cautious in designing and approving projects in the 1990s. The Bank created an Inspection Panel — a semi-independent body that can hold the institution accountable for violations of its own operational policies — and participated in an independent evaluation of the development impacts of large dams. Most notably, the Bank decided not to finance several contentious megaprojects.

The World Bank's cautious approach appears to have come to an end. Big is beautiful again, and megaprojects are back in style. The Bank recently decided to embark on what it calls a "high-risk/high-reward" strategy. It lifted its ban on the financing of commercial logging operations in rainforests, announced that it will renew its support for contentious large dams, and is considering support for massive oil, gas, and mining projects in high-risk environments.

At this critical juncture, "Gambling with People's Lives" considers the following questions: What is the World Bank's track record with high-risk projects in the water, forestry and extractive industries sectors? Has the Bank learned lessons from its acknowledged failures of the past? Has it improved its capacity to deal with environmental and social risks, for example, by strengthening its operational policies? Who is exposed to the high risks the Bank is prepared to accept, and who is likely to reap the rewards?

The report finds that the World Bank's earlier high-risk projects have created a huge legacy of unresolved social and environmental problems and resulted in an ecological debt owed to the Bank's borrowing country citizens. Despite acknowledging its past failures, the World Bank has not learned from these mistakes. It has not mainstreamed social equity and the environment throughout its operations. It has weakened, instead of strengthened, its crucial operational and safeguard policies. The Bank still lacks policies on essential issues such as human rights, and fails to analyze the distributional impacts of its projects. As a consequence of such gaps and failures, the World Bank is not able to adequately identify, contain and mitigate the risks of the projects that it finances.

Alternative project options that are marked by low environmental and social risk and high development rewards are available. Yet the World Bank is not equipped to recognize and support the often slow, decentralized, participatory and democratic processes that low-risk projects entail.

"Gambling with People's Lives" concludes that the new "high-risk/high-reward" strategy will wreak havoc on the poor and on the environment, and will intensify conflicts over World Bank projects. Since the Bank has announced its return to a high-risk approach, private investors have pulled out of two of its crown jewels, the Nam Theun 2 Dam in Laos and the Bujagali Dam in Uganda. This is an indicator that the new strategy will prolong the deadlock in important sectors, as well as impede the development of more sustainable alternatives.

The report presents a series of recommendations for changing the Bank's policies and incentive structures to strengthen the institution's capacity to identify, contain and mitigate risk. It calls on the international community to create suitable mechanisms for repairing the social and environmental damage caused by past projects, and for supporting decentralized, participatory, low-risk/high-reward processes and projects.

"Institutional Amnesia": The World Bank's Approach to High-Risk Projects

It is November 12, 1981. World Bank President A.W. Clausen has good news. "For a decade now, the Bank has required, as part of project evaluation, that every project it finances be reviewed by a special environmental unit," he reports in a speech. "I'm pleased to say that it has been possible to incorporate protective measures in all the projects we have financed over the past decade."[1]

Throughout the 1980s, the experience of people affected by projects in Brazil's Amazon region or by transmigration projects in Indonesia exposed President Clausen's claim as wishful thinking. In May 1987, Clausen's successor Barber Conable admitted that "the World Bank has been part of the problem in the past," and announced a series of sweeping environmental reforms. The number of environmental staff was to be greatly increased, operational directives were going to define policies on issues such as environmental impact assessment and involuntary resettlement, and the World Bank was going to finance positive environmental projects. In 1991, the Bank also adopted a new Forest Policy Paper that banned further support for commercial logging in primary tropical moist forests.

Reports about ongoing development disasters, most notably the Sardar Sarovar Dam in India's Narmada Valley, soon demonstrated that the new environmental policies were not being implemented effectively. In response to growing criticism from NGOs and parliaments around the world, President Conable in 1991 established an independent commission headed by Bradford Morse, a former U.S. Congressman and head of UNDP, to investigate the Sardar Sarovar Project.

Protective measures in all projects?

"For a decade now, the Bank has required, as part of project evaluation, that every project it finances be reviewed by a special environmental unit. I'm pleased to say that it has been possible to incorporate protective measures in all the projects we have financed over the past decade."

World Bank President A.W. Clausen in a speech in Washington, DC on November 12, 1981

The Morse Commission's independent review was published in June 1992. It landed like a bombshell on the Bank. "We have discovered fundamental failures in the implementation of the Sardar Sarovar Projects," the review found. "We think the Sardar Sarovar Projects as they stand are flawed, that resettlement and rehabilitation of all those displaced by the Projects is not possible under prevailing circumstances, and that the environmental impacts of the Projects have not been properly considered or adequately addressed."[2] The authors concluded that "the history of the environmental aspects of Sardar Sarovar is a history of non-compliance … The Bank is more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies."[3]

The findings of the Morse Commission were all the more disturbing since the World Bank considered the Sardar Sarovar Dam to be the most studied of all of its projects. In March 1993, the Bank was forced to withdraw from the Sardar Sarovar Project.

The World Bank's "approval culture"

Six months after the release of the independent review, an internal report provided the analytical background to explain why the World Bank flouted its own policies in projects like Sardar Sarovar. A task force under outgoing Vice President Willi Wapenhans found that a pervasive "pressure to lend" was undermining the rigor of appraisals and project quality. According to the Wapenhans report, "[t]he Task Force found that the

MIGA: An Insurer Against High Risk

The Multilateral Investment Guarantee Agency (MIGA) is commonly referred to as the "insurance arm" of the World Bank Group. With the backing of its member governments and their taxpaying citizens, MIGA provides risk insurance to foreign corporations and banks that want to invest in developing countries. The agency underwrites private sector loans and equity investments for a host of perceived political risks including expropriation, war, civil disturbance and currency transfer. Since its establishment in 1988, MIGA has provided more than $11 billion in political risk insurance for projects in over 80 countries. As the Bank Group's principal risk insurer, it seems that MIGA would play an important role in any new Bank strategy involving high-risk projects.

Officials inspect a giant crack at the MIGA-insured Omai gold mine in Guyana. In 1995, a tailings dam broke at the mine, spilling billions of liters of cyanide-laced effluent into a local river. (Photo: Mineral Policy Center)

Although it is a public institution, MIGA rarely discloses information to the public concerning the impacts of its projects on the surrounding communities. Its environmental and disclosure policies are the weakest among the World Bank's lending arms. For example, unlike the rest of the Bank, MIGA releases no information about Category B projects prior to Board approval.[4] Strengthening these policies has not been a priority, presumably because MIGA is concerned with maintaining good relations with its private sector clients and attracting business.

As part of the World Bank Group, MIGA is supposed to comply with the Bank's mandate of poverty alleviation and sustainable development. Yet many MIGA-guaranteed projects have had significant negative economic, social and environmental effects on the very communities it purports to aid in development. MIGA has drawn heavy criticism from many environmental and public interest groups who claim that the agency's commitment to socially responsible development is highly questionable.[5]

Their critiques point to MIGA's developmentally dubious practices, such as its secretive use of public funds, its support for developmentally questionable projects, its failure to initiate effective environmental monitoring programs, and its penchant for insuring the largest multinationals (rather than small or medium-sized businesses that most analysts believe are crucial to successful development efforts in poor countries).

MIGA-backed projects with extremely questionable development benefits include guarantees for car dealerships in Zambia and Mozambique, a yacht club and luxury marina in Albania, a high-end shopping mall in the Dominican Republic, and an ocean therapy "spa" in Senegal. Among MIGA-insured extractive industry projects are the Omai gold mine in Guyana where a tailings dam broke and spilled billions of liters of cyanide-laced effluent into a local river; Indonesia's Grasberg Mine where rampant human rights abuses by company security forces were alleged; and Papua New Guinea's Lihir mine where millions of tons of toxic tailings are dumped directly into the sea.

MIGA's due diligence for its projects is entirely inadequate. A recent review of MIGA's guarantees in the extractive industries found that at Board approval, only one-third properly complied with its resettlement and natural habitats policies. None of the relevant projects reviewed included the required indigenous peoples plan.[6] MIGA's demonstrated lack of due diligence in ensuring sustainable development has spawned an international effort among concerned groups to make MIGA more socially responsible, transparent and accountable to its stakeholders, while others have concluded that MIGA has no legitimate role within the Bank Group.

credibility of the Bank's appraisal process is under pressure. Many Bank staff perceive appraisals as marketing devices for securing loan approval (and achieving personal recognition). Funding agencies perceive an 'approval culture' in which appraisal becomes advocacy."[7] The task force identified "inadequate assessments of risks and their impacts on expected benefits" as one of the shortcomings of the appraisal process. Only 17% of the staff interviewed thought that "analytical work done during project preparation was sufficient to ensure the achievement of project quality."[8]

The World Bank's response to the Morse and the Wapenhans reports was twofold. Under pressure from NGOs, reform-minded Executive Directors and the U.S. Congress, the Bank in 1993 agreed to create a semi-independent Inspection Panel as a means of increasing compliance and accountability. The Panel was an innovative mechanism to which project-affected people could turn if they were harmed as a result of Bank policy violations. The Panel could investigate projects and issue recommendations to the Board, but was not empowered to take direct corrective action. In August 1995, World Bank President James D. Wolfensohn withdrew support for the Arun III hydropower project in Nepal in response to the first complaint made to the Inspection Panel. The Panel went on to investigate many other projects in Brazil, India, China and elsewhere. It soon met stiff opposition from conservative Board members and Bank management, but remains one of the few options available to demand some level of accountability from an international financial institution.

Unfortunately, this important accountability achievement was diminished by Bank management's decision to reformat the existing social and environmental safeguard policies into new, simplified operational policies in 1993. NGOs criticized this exercise as a means of reducing the scope of mandatory policies to which the Bank could be held accountable through complaints filed with the Inspection Panel. The Bank denied such charges. Yet in an internal memorandum, the director of the Bank's policy department noted on March 15, 1996: "For the Bank to be held accountable for following its policies, as we are now, it is essential that we be able to distinguish between the 'bottom line' of what is mandatory policy and the 'would it not be nice to have' statements of intention… Our experiences with the Inspection Panel are teaching us that we have to be increasingly careful in setting policy that we are able to implement in practice."[9] As a consequence, important provisions of what were always meant to be mandatory policies were turned into "would it not be nice to have" statements of intention.

The gap between rhetoric and action

"Informal organization is the way things get done around here. Formal organization is where the rituals are carried out — the consultations with NGOs that have no effect on subsequent actions, the sophisticated regional environmental strategies that make no impact on the choice of projects, the information collected and the meetings between the leaders of the organization and leaders of world religions to discuss unresolvable problems ...."

Robert Hunter Wade,
"The US Role in the Malaise at the World Bank: Get up, Gulliver!" August 2001

"All things to all people"

The contradictions between public announcements and actual policy deepened with the arrival of President Wolfensohn in 1995. "We have to make a choice," a member of the Bank's senior management told the new President in March 1996. "Either we treat our governments as clients and we behave like merchant banks, in which case we owe it — again, to ourselves, in the first place, and to our counterparts, second — to stop talking about the environment, about women in development, about poverty alleviation, and so on, as priorities. … If the government is not our client … the client is the people of the countries we work with, and the governments are agencies, instruments, with whom we work to meet our clients' needs."[10] Yet Wolfensohn was not prepared to make such a choice. In high-profile announcements, he promised to strengthen participation and improve project quality on the ground, but also to shorten loan-processing time, increase the volume of lending and strengthen cooperation with the private sector. The new President was "trying to be all things to all people, and not choosing among what may be fundamentally irreconcilable priorities," Bruce Rich of Environmental Defense observed.[11]

In 1996, President Wolfensohn started an extended, thoroughly confusing process of institutional reforms inside the World Bank. The Bank's operational departments were strengthened and decentralized, and the technical departments — including the environmental units — were made largely dependent on budgetary allocations from the operational staff. This weakened the environmental units, in that they risked being cut off from revenues if they held up projects. As a consequence, Bruce Rich notes, the "approval culture" that the Wapenhans report had criticized was "fatally reinforced."[12] Robert Hunter Wade, a professor at the London School of Economics who is critical of many NGO positions, arrives at a similar conclusion. "The organizational reform of 1997," Wade suggests, "can be understood as a means to allow the Bank to be responsive to both the borrower governments and its non-borrower governments, especially the United States,

The Experience with IFC

The International Finance Corporation (IFC), the private sector lending arm of the World Bank Group, was established in 1956 "to further economic development in its member countries by encouraging the growth of private enterprise." The agency lends directly to and invests in the equity of private sector ventures in the developing world, where private capital is often unwilling to venture. IFC also arranges other private sector financing, playing a catalytic role. As part of the World Bank Group, IFC is supposed to share the World Bank's poverty alleviation mission.

The largest portion of IFC's investments is in the financial services sector, followed by infrastructure. Among its controversial projects, IFC has provided support for the Bujagali Dam, the Yanacocha gold mine and the Chad-Cameroon project (see Boxes on pages 11, 16, and 30).

In the past several years, IFC has undertaken efforts to address critiques and concerns raised by environmental and social advocates. IFC has revised its safeguard policies and launched initiatives aimed at promoting greater social and environmental sustainability in its lending. Nonetheless, IFC has a long way to go to ensure that it is proactively supporting sustainable development and financing projects that have the greatest sustainable development impact.

IFC still largely measures its performance and contribution to development by assessing economic growth and revenue generation functions, rather than sustainable development indicators. IFC does not assess how costs and benefits are distributed among stakeholders, indicating that it would not be able to detect situations where local affected communities get a bad deal. IFC's dollar-oriented slant is at odds with other work within the World Bank Group that claims to measure poverty as a function not just of income, but of empowerment, voice, participation, security and livelihood.

IFC's policies, though improved, are still insufficient for a public development institution. The IFC employs a more substantive information disclosure policy than does MIGA. It states, "[t]here is a presumption in favor of disclosure where disclosure would not materially harm the business and competitive interest of clients." Nevertheless, business interest concerns allow considerable leeway to keep "business confidential" information out of the public domain. IFC also lacks policies in crucial areas such as security. As oil, mining and gas projects generally involve valuable infrastructure and natural resources deposits, companies often arrange for security to guard their facilities. These arrangements have led to volatile relations between local communities and the security or police forces, including those of IFC's private sector clients. These policy gaps, as well as IFC's failure to thoroughly assess the distribution of costs and benefits of projects, will become even more damaging under a strategy that promotes high-risk projects.

by decoupling itself internally so as to allow its parts to say and do things with different parties that if spotlit all at once would seem inconsistent. The reform, in other words, was a way to institutionalize the capacity to be hypocritical and get away with it."[13]

In response to the public-relations disasters of the Sardar Sarovar and Arun III projects, the World Bank began to shy away from controversial dam projects in the mid-1990s. Most notably, it stayed away from the notorious Three Gorges Project in China in 1997, after playing an active role in preparing the project's feasibility studies. The World Bank Group continued to finance controversial projects in the mining, oil and gas sectors, as well as projects that had negative impacts on forests.

The avoidance of many contentious projects was at least partly an opportunistic attempt to keep away from public controversy. It did not reflect a mainstreaming of social and environmental policies in the Bank's operations. In 1996, the Bank's Operations Evaluation Department (OED) concluded in two separate reports that environmental assessments (EAs) and poverty assessments were not effective in actually influencing project design, and that Bank supervision of environmental project components was often lax or non-existent.[14] In 2002, yet another OED report found that "the quality of the EA process [had] deteriorated," and that the decentralization that was part of President Wolfensohn's institutional reform had "diminished the Bank's capacity both to mainstream the environment into country programs and to implement its safeguard policies effectively."[15]

Re-emergence of the high-risk approach

In response to the Bank avoiding certain types of controversial projects, governments particularly from the

South and some Bank managers complained that the World Bank had become "risk averse." By 2001, this view had become generally accepted within the Bank's management and the Board of Directors. In July 2001, a task force prepared a report on the cost of the Bank's safeguard, procurement and financial policies entitled "The Cost of Doing Business." According to the report, "[t]he task force does see some risks that the Bank faces in withdrawing — or being de-facto excluded — from important infrastructure sub-sectors such as energy, transport, and urban… The Bank has become so risk-averse, according to some borrowers, that it would rather do no project than risk criticism."[16]

The new report was widely used to justify a further relaxing of the World Bank's safeguard policies. The debate largely ignored the fact that according to the report, most delays and costs (for the Bank and the borrowers) were not caused by environmental and social safeguard policies, but rather by the institution's bureaucratic procurement and financial accounting policies. The task force estimated the incremental cost of applying safeguard policies at $36-56 million per year. In comparison, it estimated the incremental cost of the Bank's procurement and financial policies to be almost three times higher, at $101-153 million per year.[17] One of the task force's "key recommendations" was to "[i]nitiate assessments of environmental and social impacts at the earliest possible time in project processing."[18]

The Bank's move to discount environmental and social concerns was also facilitated by external events. The arrival of the new Bush administration and the terrorist attacks of September 11, 2001 shifted the parameters of the international public debate and weakened the role that the environment and human rights played within it. In October 2002, the Bank removed the ban on support for commercial logging in rainforests in its revised forest policy. "Narrowly focused risk aversion to engagement is tantamount to accepting the destructive practices prevalent in many of the major forests of the world and in truth, encompasses more risks than engagement for the Bank, our client countries and the world's forests," management argued in the draft of the World Bank Group's Revised Forest Strategy.[19]

In February 2003, conservative factions within the Bank managed to obtain an official endorsement for a "re-engage[ment] with high reward/high risk hydraulic infrastructure" in the new Water Resources Sector Strategy.[20] (Interestingly, the authors avoided the term "dam," and preferred instead the euphemism "hydraulic infrastructure.") The authors of the strategy pointed to the fact that the number of water infrastructure projects in poor countries is much lower than in rich countries, and asserted that dam projects would go forward whether or not the World Bank supported them, especially in middle-income countries. Without quoting any evidence, the authors claimed that the performance of dam projects had improved significantly in recent years, and that it was important for the Bank to be involved in such projects to acquaint itself with "best practice." The Strategy asserted that "low-cost, often community based solutions" and "'easy and cheap' options" have been "mostly exploited," and as a consequence "re-positioning the World Bank vis-à-vis controversial infrastructure is a vital, but complex and contentious task."[21] As the Bank's senior water advisor explained in March 2003, the approach taken by the new Water Resources Sector Strategy was not only valid for the water sector, but also for the forest and mining sectors.[22]

Lessons from the past ignored

"The lessons from past experience are well known, yet they are generally ignored in the design of new operations. This synthesis concludes that institutional amnesia is the corollary of institutional optimism."

World Bank Quality Assurance Group, "Portfolio Improvement Program" (draft internal report), April 1997

A few weeks after the Bank approved its new Water Strategy, a so-called World Panel on Financing Water Infrastructure chaired by the IMF's former Managing Director Michel Camdessus proposed that international financial institutions "resume lending for dams and other large water storage and transfer schemes."[23]

The formal rehabilitation of so-called "high-risk/high-reward" projects is noteworthy for at least two reasons:

- The Bank has never made an empirical case that high-risk projects such as large dams indeed produce higher rewards than low-risk, community-based alternatives, or that the potential of relatively easy and inexpensive options has been exploited. The Bank has never even evaluated the outcome of its earlier high-risk projects.

- On the contrary, evaluations of water sector projects that the Bank has carried out came to very different conclusions. An OED evaluation of the Bank's earlier Water Resources Strategy found that "scant attention" was given to the direct impacts of water projects on the poor, that the staff focus was on "meeting disbursement targets," and that "the Bank

responded too much to the pressure from influential segments of the population" rather than to the needs of the poor.[24] The report recommended an "[i]ncreased emphasis on implementation of safeguard policies during project supervision by the Bank and the borrower."[25] An evaluation of the Bank's water strategy in India also concluded that "mov[ing] away from new construction" and "focusing on making existing infrastructure work efficiently" was "most appropriate given the poverty alleviation mission of the Bank."[26]

Institutional amnesia

A global poll in May 2003 found that the share of opinion leaders who thought the World Bank was doing a good job at "fostering environmental sustainability" had dropped from 27% to 21% since a 1998 poll. (The share of people who thought it did a poor job increased from 29% to 34%.)[27] Only 22% thought the Bank did a good job in reducing poverty, and only 16% thought the Bank had been successful in reducing corruption.[28] This poll supports the perception that the Bank is not able to safeguard the interest of the environment and the communities affected by so-called "high-risk/high-reward" projects.

In April 1997, the World Bank's Quality Assurance Group noted in an internal draft report: "The lessons from past experience are well known, yet they are generally ignored in the design of new operations. This synthesis concludes that institutional amnesia is the corollary of institutional optimism … . [There is a] disconnect between the usually accurate assessment of the real prospects for the project by the staff and the generally more optimistic assessment that appears in the appraisal report. Many factors are at work: pressure to lend; fear of offending the client; … fear that a realistic, and thus more modest, project would be dismissed as too small and inadequate in its impact."[29] The observation still holds true today, and the renewed endorsement of a "high-risk/high-reward" approach can be interpreted as a sign of the Bank's persistent institutional amnesia.

[1] A.W. Clausen (1981) "Sustainable Development: The Global Imperative," 12 November. For a concise history of the emerging World Bank environmental policies, see Bruce Rich (1994) *Mortgaging the Earth.*

[2] B. Morse and T. R. Berger (1992) "Sardar Sarovar, The Report of the Independent Review," p. vii. (Since the World Bank extended both an IBRD loan and an IDA credit for Sardar Sarovar, the Independent Review refers to the dam as "Projects.")

[3] Ibid., pp. xxi, 36.

[4] A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of Category A projects. Impacts are site-specific, few if any of them are irreversible, and in most cases mitigation measures can be designed more readily than for Category A projects. See World Bank Operational Manual, Operational Policy 4.01 Environmental Assessment.

[5] See for example Friends of the Earth US, Campagna per la Riforma della Banca Mondiale, and Urgewald (2001) "Risky Business: How the World Bank's Insurance Arm Fails the Poor and Harms the Environment." Available at http://www.foe.org/camps/intl/worldbank/miga.html

[6] Operations Evaluation Department, Operations Evaluation Group, Operations Evaluation Unit (OED, OEG, OEU) (2003) "Extractive Industries and Sustainable Development: An Evaluation of the World Bank Group's Experience," Volume IV, World Bank.

[7] World Bank (1992) "Effective Implementation: Key to Development Impact" (Wapenhans Report), p. 14.

[8] Ibid., pp. 14, 16.

[9] World Bank (1996) Office Memorandum from Myrna Alexander, OPRDR, 15 March.

[10] World Bank (1996) Meeting of President Wolfensohn with Senior Management [internal document], 12 March, p. 17.

[11] Bruce Rich (2003) "The World Bank Under James Wolfensohn," in: Jonathan R. Pincus, Jeffrey A. Winters (eds.), *Reinventing the World Bank,* p. 26.

[12] Ibid., p. 53.

[13] Robert Hunter Wade (2001) "The US Role in the Malaise at the World Bank: Get up, Gulliver!," p. 2.

[14] See Operations Evaluations Department (1996) "Effectiveness of Environmental Assessments and National Environmental Action Plans: A Process Study" and "Poverty Assessment: A Progress Review, " World Bank.

[15] Operations Evaluation Department (2002) "Promoting Environmental Sustainability in Development: An Evaluation of the World Bank's Performance." World Bank, pp. 21, 23.

[16] World Bank (2001) "Cost of Doing Business: Fiduciary and Safeguard Policies and Compliance," pp. vii., 7.

[17] Calculated from ibid., pp. 8f.

[18] Ibid., p. viii.

[19] World Bank (2002) "A Revised Forest Strategy for the World Bank Group," p. 23.

[20] World Bank (2003) "Water Resources Sector Strategy: Strategic Directions for World Bank Engagement," p. viii.

[21] Ibid., pp. 1, 50.

[22] John Briscoe (2003) "High Risk/High Reward Water Projects." World Bank, Water Week 2003.

[23] James Winpenny (2003) "Report of the World Panel on Financing Water Infrastructure." World Bank.

[24] Operations Evaluations Department (2002) "Bridging Troubled Waters, Assessing the World Bank Water Resources Strategy." World Bank, pp. 13, 32, 53.

[25] Ibid., p. 41.

[26] Operations Evaluations Department (2002) "INDIA: World Bank Assistance for Water Resources Management, A Country Assistance Evaluation." World Bank, p. 29.

[27] Princeton Survey Research Associations (2003) "The Global Poll, Multinational Survey of Opinion Leaders 2002." World Bank, p. 53. (Note that half of the interviewees were selected by the World Bank.)

[28] Ibid., pp. 42, 55.

[29] World Bank (1997) "Portfolio Improvement Program" [draft internal report by Quality Assurance Group], p. 15.

Risky Business: Extractive Industries

The World Bank has invested heavily in the extractive industries — oil, gas, and mining — for decades. For example, from 1993-2001 the World Bank Group provided more than $11 billion for oil, gas and mining projects.[1] The Bank's strategic approach to these sectors has shifted alongside its development paradigm, evolving from support for state-led activities to an increased role for the private sector.

In a comprehensive review of the Bank's experience in extractive industries, OED classifies the Bank's historical involvement with extractive industries into several distinct periods. In the 1960s and 1970s, the Bank's role in natural resource extraction centered around promoting exploration and production, mainly through state-owned enterprises. In the 1980s, the Bank began to promote commercialization and privatization of state oil and mining companies. The 1980s also saw the rise of structural adjustment programs, through which the Bank played a major role in sector policy reform and liberalization. For example, the Bank promoted changes to mining codes that facilitated increased private sector investment.

"Again and again, natural resource windfalls have financed presidential planes and palaces and entrenched official corruption, while producing very little in the way of lasting economic benefits. Countries with the windfall external finance provided by abundant natural resources, such as Nigeria, Venezuela, Burma and Zambia have failed to progress economically — indeed, in several cases have fallen back."

Lawrence Summers, U.S. Treasury Secretary, Remarks to the Council on Foreign Relations, March 1999

The emphasis on private sector-led development continued in the 1990s. The establishment of MIGA in 1988 gave the Bank another avenue of collaboration with the private sector. In addition, the dissolution of the Soviet Union and the Republics' state-run economies created opportunities for the Bank to get involved in the former Soviet states. The Bank provided technical assistance in the formation of legislative, institutional and taxation regimes to attract private investment. It also financed the closure and rehabilitation of mines and production facilities. Since the 1990s, the Bank has incorporated additional governance-related measures in extractive projects, such as capacity building for government agencies.[2]

The Bank's support for extractive industries development does not appear to have reaped many rewards for the countries involved. The World Bank's own researchers recently conceded that "countries with substantial incomes from mining performed less well than countries with less income from mining."[3] In less euphemistic terms, the report's findings reveal that the more a country depends on mining for its revenue, the worse its growth in per capita Gross Domestic Product (GDP) is likely to be. Other research has found that oil and mineral dependence is strongly associated with exceptionally dismal conditions for the poor, including low performance on a wide array of human development indicators.[4] A recent review by the Operations Evaluation Group (OEG) — the evaluation department of the IFC — determines that natural resource-rich countries are less likely to achieve all but one[5] of the Millennium Development Goals.[6]

High risk and poor governance: a recipe for disaster

In response to ongoing criticism concerning its support for oil, gas, and mining projects, in 2001 the Bank commissioned an Extractive Industries Review (EIR) to determine its future role in these sectors. As part of its commissioning of the EIR, the World Bank asked OED to

assess the Bank's experience in the extractive industries. OED paid specific attention to governance, an issue that virtually everyone agrees is a crucial determinant of whether natural resource development can be executed in a way that alleviates poverty and mitigates environmental damage.

The OED review indicates that "good governance is a prerequisite for enhancing the positive linkage between increased fiscal revenue flows and sustainable development."[7] The review finds that the Bank was only "modestly relevant and efficacious" in addressing public expenditure policies in resource-rich countries.[8] According to the review, "while the WBG is aware of the underlying causes for the underperformance of many resource-rich countries … it has yet to formulate and implement viable approaches to address them."[9]

> ***"It is the devil's excrement. We are drowning in the devil's excrement."***
>
> Juan Pablo Perez Alfonzo, founder of OPEC, discussing the situation in his native Venezuela

Furthermore, OED finds that the Bank has no strategy for sequencing governance interventions in the extractive sectors or coordinating these interventions with work in other sectors. "Working to establish the prerequisites for good development outcomes from [extractive industry] investments in parallel with, or after supporting expansion of the sector poses a major challenge and is a high-risk strategy in countries with poor macro and sectoral governance."[10]

From a governance perspective, rather than promote new investments in high-risk environments, the OED review recommends that the Bank focus its assistance on strengthening macroeconomic and sectoral governance. Sectoral governance is characterized by transparency, a sound legal and regulatory framework, including effective environmental and social protections, and institutional and capacity development of government regulatory and oversight bodies.

In fact, OED's recommendations could be interpreted as an endorsement of a low-risk strategy: the Bank should support increased extractive industries only in an environment of sound macro and sectoral governance. Nevertheless, the World Bank Group has pursued the opposite strategy. According to OEG's review of IFC's experience with extractive industries, most of IFC's extractive projects have been in high-risk countries with bad governance, and at a higher rate than investments in other sectors.[11]

Many dimensions of the resource curse

Economists have noted a paradox in the economic performance of resource-dependent societies: countries that are blessed with abundant natural resources tend to grow more slowly than countries without such wealth. This phenomenon, known as "the resource curse," has been observed in comparative studies of growth, and is recognized as a "recurring motif of economic history."[12] A comparative analysis of growth in 97 countries found that countries with a high ratio of natural resource-based exports to GDP tended to grow more slowly than countries with less resource-intensive economies.[13]

Societies that rely heavily on fossil fuel and mineral exports also do a worse job of addressing the needs of the poor. According to an Oxfam America study, countries with large extractive industries have lower standards of living than they should have given their per capita incomes. They also have exceptionally high rates of child mortality and low life expectancy. Mineral-dependent countries tend to have higher poverty rates and higher rates of income inequality. Oil-dependent societies tend to have higher rates of child malnutrition, lower spending levels on health care, lower rates of school enrollment and lower rates of adult literacy.[14]

Governance in natural resource-rich developing countries also appears to be worse than in countries that lack resource wealth. The World Bank's own Development Research Group has conducted several illuminating studies in this area. One study found that oil and mineral exports are strongly associated with authoritarian rule.[15] Another study noted the tendency of rebel movements and civil war to be linked to the capture of natural resources. The study found that in countries with a high dependency on primary commodity exports, the risk of civil war is 23%, compared to 0.5% risk in a country with no natural resource exports.[16]

Despite these negative associations, World Bank management envisions a greater role for the Bank in the extractive sectors. The director of the oil, gas, mining and chemicals department at the World Bank told investors last year, "[w]hat we see looking forward is large investments in the oil sector."[17] Consistent with this goal, the Bank is moving forward with several high-risk projects without any indication that these projects can escape the resource-curse cycle of corruption, conflict and poor development outcomes. Furthermore, the Bank

Chad-Cameroon: A Risk Mitigation Test Case

The Chad-Cameroon Oil and Pipeline Project is the biggest private investment in sub-Saharan Africa today. It involves the drilling of 300 oil wells in southern Chad and the construction of a 1,070 km pipeline to transport the oil from Chad through Cameroon to an offshore loading facility in the Atlantic. Oil first began to flow in July 2003 (almost one year ahead of schedule), and Chad will start to accrue revenues from initial oil sales by end 2003 or early 2004. At maximum capacity, production will be 225,000 barrels per day. ExxonMobil is the project's operator, in partnership with Petronas and ChevronTexaco. The project is estimated to cost $3.7 billion.

World Bank involvement
In June 2000, the IFC approved lending for the Chad-Cameroon project. At the same time, the World Bank approved International Development Association (IDA) credits for two related capacity-building projects in Chad and Cameroon. This supplemented an already approved IDA credit for revenue management in Chad.

A "gas station" in Doba, the main oil producing region in Chad. Despite the region's significant oil resources, it is unclear how and if local people will benefit from the massive Chad-Cameroon project. (Photo: Korinna Horta, Environmental Defense)

The World Bank Group, while a minor financier, was key to realizing the Chad-Cameroon project because it reduced the companies' exposure and leveraged private sector financing that would not have been available otherwise. The Bank presented the project as an opportunity for Chad to address its acute poverty and for Cameroon to generate revenue.[18] As a response to pressure from donor governments and NGOs, the World Bank appointed a high-level International Advisory Group (IAG) to conduct quarterly monitoring visits with particular attention paid to social and environmental safeguards.

In 2001 and 2002, local groups in Chad and Cameroon respectively filed claims with the Bank's Inspection Panel charging that the World Bank had violated its own policies in the implementation of the Chad-Cameroon project. The Panel confirmed numerous instances of violations of the Bank's environmental assessment policy, and in the case of Chad, violations of the operational directives on poverty alleviation and economic evaluation.

Key environmental and social concerns
Despite assurances by the Bank and the implementation of extraordinary measures such as establishing the IAG, the project's high risks are playing out in a negative way for local communities. The revenue management plan was promoted as a groundbreaking initiative to ensure that the Chadian government's oil revenues would be transparent and largely spent on social programs to promote poverty alleviation. However, the revenue management body is significantly handicapped in its capacity. Legislation and an operational manual detailing the committee's power and functions have not yet been finalized, nor has the Chadian government shown a clear commitment to sufficiently empower the committee to carry out its work.

Cameroon has some of the most biologically diverse and important forests in Africa. The pipeline corridor cuts through Cameroon's Atlantic coastal forest. Project-related upgrading of seasonal roads has led to logging and illegal poaching in otherwise inaccessible areas. Construction has already caused oil spills and pollution of the water system.[19] Although the consortium prepared an oil spill response plan, the plan has been described as fundamentally flawed. It fails to offer communities that would be impacted by an oil spill a legal framework within which to submit grievances or file suit for damages.

In Cameroon, thousands of people have had their lands expropriated, crops and other plants destroyed, and water sources polluted without adequate compensation. One affected person who summarized his grievances said: "The pipeline has a negative impact on our lives. The route crosses a zone in which we practice agriculture and hunting. And when construction work started, our crops and our medicinal plants were destroyed, without compensation. Game has equally disappeared."[20]

The public health impacts of the project have not been effectively mitigated. Dust from construction contributes to respiratory problems and illnesses, which are often left untreated because of the lack of access to health services in the area. Job opportunities have been disappointing and there is no plan to address the

problems of workers who will be released when construction is finished. The influx of largely male job seekers into the project area has led to serious social disruption of the communities, with prostitution, alcohol abuse and HIV/AIDS all on the increase.[21]

Corruption is rampant in both countries, and civil society leaders are subject to harassment and intimidation, which prevents many from openly providing input and conducting effective monitoring.[22]

is considering these controversial oil, gas, and mining projects in risky environments — such as the BTC pipeline in Azerbaijan, Georgia and Turkey and mining projects in the Democratic Republic of Congo — in spite of the fact that the Extractive Industries Review has yet to reach its conclusions regarding the Bank's role in these sectors.

The Bank contends that it can help countries manage the revenues from extractive industries and ensure a broader distribution of benefits. However, the evaluation groups' review of the Bank's role in extractive industries finds that the Bank fails to measure the distribution of costs and benefits. Interestingly, the review notes that virtually all interest groups, from industry to affected communities, highlighted the allocation of benefits as a key issue. In fact, interest groups stated a desire for clear information about the distribution of benefits, and perceived this information to be a risk mitigator.[23]

"The Chad/Cameroon project is not the help we asked for or needed. In the absence of the rule of law and respect for human rights and the environment, financing of large-scale oil development is destroying the environment and us. Help!"

Archbishop Desmond Tutu in "The Chad-Cameroon Oil and Pipeline Project: A Call for Accountability," 2002

The OEG review of IFC's experience notes that the IFC's measurement of development outcome "does not take into account the distribution of benefits."[24] It further notes, "IFC has typically not compared the benefits to other EI projects or stated whether it perceives the distribution of benefits to be reasonable …[and] IFC has typically not calculated shares accruing to different levels of government or accruing directly to local communities."[25] Since the extractive industries are associated with large costs as well as potentially large profits, the failure to fully assess the distribution of revenues is a particularly acute problem for this sector and poses unique risks.

The review also finds that the Bank's measurement of economic rate of return counts a dollar for the investor as equivalent to a dollar for government or a dollar spent on a social program for the poor.[26] Therefore, a project that translates purely into profit for the investor, which could be a large transnational corporation that repatriates most of its earnings, is considered to be equivalent in impact to a project that boosts the incomes of the poorest sectors of society. This flawed system of calculating project impact skews the measure of development outcome, and leads to overly optimistic projections of the Bank's extractive projects' contribution to poverty alleviation. As a development institution, the Bank should measure projects for their specific contribution to poverty alleviation and sustainable development. Overly optimistic expectations of project performance also heighten the risk of disappointment with project outcomes and the risk of social discontent with a project that fails to benefit local communities.

High risk of policy gaps

The OED's extractive industry study also examines compliance with the Bank Group's safeguard policies and notes serious problems with issues such as monitoring and gaps in policy. These issues are of profound concern if the Bank moves to take on even riskier projects, where the consequences of inadequate supervision can be more severe.

The OED review finds that only 41% of the projects reviewed had adequate supervision and oversight.[27] Not surprisingly, although most projects complied with safeguard policies at project approval, compliance deteriorated during implementation. Only about 30% of the projects in the study involved environmental or social supervision. Less than 25% of project completion reports had adequate reporting and discussion of safeguard compliance.[28]

The review also determines that the World Bank has significant gaps in its policies; policies that are crucial to the appropriate evaluation of extractive industry projects. For example, the Bank has no security and human rights guidelines, despite the fact that human rights issues have long been contentious surrounding extractive industry projects, and have led to controversies that affected project outcomes for investors and communities

Singrauli: Same Old Story

The World Bank considered Singrauli one of India's most important centers for coal mining and power generation. It invested heavily to transform Singrauli from a forested, biodiverse farming area into an industrial zone. In 1977, the Bank helped finance the construction of the first coal-fired power plant in the region, and financed a plant expansion in 1980. The Bank also helped finance one of the first open-pit coal mines in the area in 1985, and in the same year, provided support to connect the power plants to the electrical grid system. By the mid 1990s, its client, the state-owned National Thermal Power Corporation (NTPC), was the World Bank's single largest borrower.

It is estimated that 90% of the local population has been displaced, many people multiple times. Large-scale displacement was first caused by the Rihand reservoir in the 1960s, later continued by the coal mines, power plants, industrial complexes, waste disposal sites and railroad lines. Displaced people were forced into resettlement colonies or obliged to move away to find livelihoods elsewhere.[29]

After intense external pressure, the World Bank and NTPC began to investigate the situation. NTPC promised to provide oustees with comparable replacement lands and conduct additional environmental and social impact studies[30]

On June 29, 1993, the Bank loaned $400 million to expand two of the power plants. In addition, the loan included an environmental action plan that was supposed to improve environmental management and monitoring, and address outstanding resettlement issues.

The 1993 loan further threatened residents in the region with displacement. Resisting families said that they would not abandon their lands until they were provided with a resettlement plan and a rehabilitation package that would compensate them for their losses and allow them to recover their standard of living.[31] NTPC responded by moving into the area with a police force and bulldozers to forcibly evict residents. The Bank claimed that conflicting reports from its clients and the local population prevented it from taking action to halt the evictions.

The residents eventually filed a claim with the Bank's Inspection Panel, alleging violations of numerous Bank policies, including involuntary resettlement, indigenous peoples, and environmental assessment.[32]

In its June 1997 response to the Inspection Panel claim, Bank management acknowledged that it had not fully complied with Bank policies and that it had failed to effectively supervise the project. Bank management proposed two "Action Programs" that it pledged would bring the project into compliance. Neither plan was discussed with the claimants or with other affected people.[33]

The 1993 loan closed on March 31, 1999, but the World Bank's policies and procedures continue to apply to projects until the loans have been repaid. Accordingly, the Bank has an obligation to monitor resettlement and environmental issues in Singrauli and to ensure that the project is brought into compliance.

The Singrauli case is illustrative for several reasons. The June 1993 loan was approved just prior to the end of the Bank's financial year on June 30, during the Bank's "bunching season," when task managers, under pressure to commit large amounts of lending, rush projects through to the approval process. Though the loan's provisions included redress of outstanding resettlement issues, there was no assessment of NTPC's capacity to implement this. The Bank also started to promote "self-employment schemes" for displaced people, claiming that no more land or jobs were available. Self employment shifts the risk and burden of rehabilitation to the affected people, even though they never had input into the project's conception or initiation in the first place. Turning peasants with little experience into entrepreneurs in a cash-based economy was never truly viable, yet the Bank has replicated this model elsewhere. Not surprisingly, more than 25 years after the Bank's first controversial involvement in Singrauli, people continue to suffer impoverishment and upheaval.

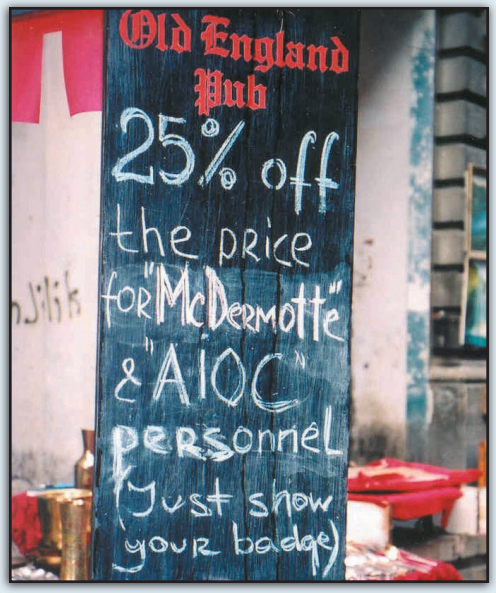
As noted by a woman in a resettlement camp: "What we have lost, we have not regained here. We lost more and received less. There is no comparison between life before and now."[34]

alike. HIV/AIDS also regularly surfaces as a social fallout of extractive industry projects. Extractive projects tend to be associated with a sudden influx of male workers housed at worker camps, which often attracts prostitution. The Bank has no guidelines to address HIV/AIDS prevention, and its requirements for mine closure do not deal with social issues at all.

The Baku-Tbilisi-Ceyhan Pipeline: Lessons Learned?

The IFC is expected to decide in October 2003 whether it will finance the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. If constructed, this $3.5 billion pipeline will transport oil from the Caspian Sea through Azerbaijan, Georgia and Turkey to the Mediterranean Sea. The BTC pipeline consortium is led by oil giant BP.

The project is billed by oil industry operatives as the "project of the century." Proponents argue that it will significantly increase the incomes of the countries involved, transform the business environment, and deliver jobs and investment programs to local communities, all while protecting the environment. Supporters of the project also argue that the benefits outweigh the costs and the rewards are worth the risks.



On both macro and micro levels, extractive industries fail to benefit local communities. In Baku, Azerbaijan, employees of foreign oil companies receive discounts at a popular English pub. (Photo: Carol Welch, Friends of the Earth)

Governance risks

The World Bank is taking a huge gamble that this project will reverse the trend of extractive industry projects in the developing world despite the lack of evidence to justify taking such a risk. Azerbaijan and Georgia rank 95th and 85th, respectively, out of 102 countries in Transparency International's Corruption Perception Index. Sectoral capacity is weak. Azerbaijan for example, is the only Caspian state that does not have an oil spill response plan. In promoting increased extractive industries investment, the Bank is ignoring the advice of its own evaluation unit, which recommended against increased investment in the extractive industries in poor governance situations.

The project poses risks for local governance and democratic development as well. The mayor of Borjomi, the center of Georgia's mineral water and tourism industries, was recently ousted by the Georgian President's appointed regional governor. Press reports attributed his removal to concerns the mayor raised about the pipeline's routing.[35] In Azerbaijan, the President's son appeared on national television and threatened opponents of the pipeline. He has since been named the country's prime minister in a rubber stamp vote by the parliament. By all accounts this move was designed to pass the presidency from ailing father to son.

Economic risks

IFC will risk important sectors of the Georgian economy, and its own investments, if it decides to finance the pipeline. The pipeline passes through catchment areas of Georgia's mineral water industry, an industry that comprises 10% of the country's exports and employs more people than would the pipeline. Business experts say the pipeline will erode the market prospects and value of the industry of some of Georgia's best-known brands, even if an oil spill does not occur. The chairman of the Dutch Environmental Impact Assessment Commission stated that crossing a water-producing region "would not be acceptable for Western Europe … we were astonished."[36] IFC has invested in the largest of the mineral water companies, as well as in a glass bottle factory that supplies the industry. As such, IFC could sabotage its own investment portfolio by supporting BTC.

Environmental risks

While BTC's proponents tout the pipeline's bypass of the heavily trafficked Bosphorus Strait, on which sits Istanbul, as an environmental boon, the pipeline would by no means avoid environmental harm. In Azerbaijan the pipeline would cross 21 major rivers, impact a sensitive desert ecosystem that will take at least 10 years to be fully restored, and traverse unstable land with high seismic activity. In Georgia, there are six major river crossings in areas with unstable land prone to landslides. In Turkey the pipeline would traverse major fault lines, cross six watersheds, and cross two sites protected under national legislation, including a wildlife protection area for a globally threatened species.[37] The Georgian environment minister even told BP that the pipeline's route violates Georgian law.

Furthermore, under the project's legal arrangements known as Host Government Agreements, all three countries are prohibited from establishing any new environmental or public health laws that might affect the financial return of the pipeline for the next 40-60 years, unless they compensate the project consortium. In essence, the project sponsors have transferred the tremendous risks of the project to the local populations with these legal arrangements. And through its expected loans and risk insurance, the World Bank would seal the deal and immunize the project consortium against much of the project's risk.

High risk equals high profit?

Given the high risks of extractive industries, why is the Bank Group looking for "large investments" in these sectors? One answer may be that from a financial perspective, the IFC's extractive industry projects are lucrative. A confidential IFC Annual Portfolio Performance Review for FY2000 noted that the oil, gas and mining sector had "by far the highest equity return (26.6%)."[38]

The OEG review also finds that the financial returns and risks for extractive industries are higher than for other sectors. The review notes that though IFC's equity investments in extractive projects have the same chance of success as other sectors, the IFC earns particularly large financial returns from a few key projects. IFC's portfolio performance is carried by "a handful of very big winners."[39]

"Badly managed oil resources are a curse, not a blessing."

Nemat Shafik, World Bank Vice President for Private Sector Development, *Washington Post,* March 1, 2002

If the Bank operated as a profit-making institution, maybe its "high-risk/high-reward" strategy would make sense. Perhaps IFC, as an equity investor in private sector projects, is motivated to a significant degree by profit motives. However, the Bank's mission is to reduce poverty and not to maximize profits; high financial rewards are not indicators of high development impact. Nor is it valid to aggregate a portfolio's "return on poverty alleviation," the way financial returns are aggregated to determine portfolio performance. The successes and failures in increasing the incomes of impoverished individuals do not offset each other. The Bank cannot rely on a strategy of a few "big winners" in poverty reduction (if those are even likely) and expect to address global poverty and sustainable development challenges.

Alternatives to the World Bank's Extractive Industries Investments

In April 2000, more than 200 groups from over 50 countries called on the World Bank to phase out of financing fossil fuel and mining projects and to shift its investments into more direct poverty-alleviating and sustainable projects.[40] According to this wide range of groups, extractive industries investments embody an unsustainable model of economic development that has failed the world's poor in the 20th century. Instead, the groups called on the Bank to work through genuine citizen participatory processes to identify national development priorities. Among the areas identified as better examples of pro-poor development was renewable energy.

Promote renewable energy

While the Bank often justifies its fossil fuel projects as increasing energy access for the poor, its energy projects are generally targeted to industrial use or export, as is the case with the Chad-Cameroon and BTC pipelines. Development institutions should focus on the policies and mechanisms that will finance environmentally and socially appropriate energy services.

The Bank's attempts to foster a renewable energy future are woefully inadequate, largely confined to pilot initiatives and small-scale programs. While IFC has established special funds such as the Renewable Energy and Energy Efficiency Fund and several solar funds,[41] these programs' resources are less than what IFC would lend for just one large fossil fuel project, such as Chad-Cameroon or BTC. At the time of this report's printing, the World Bank's web page on Rural and Renewable Energy was last updated on June 29, 1999, more than four years ago.[42] Other renewable energy and energy efficiency programs, such as the Energy Sector Management Assistance Program (ESMAP), are limited in scope, offering mainly technical assistance and some minimal financing.

The Bank needs to redirect its resources away from fossil fuel projects towards renewable energy projects such as wind, solar photovoltaic, biomass and geothermal. The Bank should seek out and identify viable projects to support. The European Bank for Reconstruction and Development (EBRD) took an important step in identifying potential projects by commissioning a Renewable Energy Resource Assessment. This assessment profiles renewable energy potential in each of the EBRD's countries of operation. The assessment notes a tremendous resource base that has the potential to meet current electricity demand several times over, and finds technical potential to meet a significant portion of electricity demand in the mid-term. The Bank should take similar steps and also set targets and timetables for increasing the proportion of renewable energy in its overall lending portfolio.

Focus on capacity

The OED review of governance and extractive industries concludes that investments in extractive projects in weak governance environments lead to negative development

Ignoring Communities: The Yanacocha Mine

One of the largest gold mines in the world, the Yanacocha mine in the Peruvian Andes is a 251 square km open pit mine located 18 km from the town of Cajamarca. The IFC has given loans totaling $150 million for the development of the mine. Furthermore it has an equity investment of 5% in Minera Yanacocha, S.A., which is a joint venture with Newmont Corporation (U.S.) and Condesa (Peru). According to IFC, its involvement ensures adherence to the highest social and environmental standards, which makes Yanacocha an example of best mining practice.[43] However, according to local people, the region of Cajamarca would be better served by investments in tourism, forests and agriculture.

Environmental health risks

A number of rivers and tributaries flow from or through the mine site area, providing water for 70% of Cajamarca's citizens. The mining operation has caused problems with water contamination,[44] fish and frog disappearance, air pollution, loss of medicinal plants and sick cattle.

People picking up mercury after a spill in June 2000 near the Yanacocha gold mine. Villagers did not know it was toxic and many became very ill. The response by IFC and Yanacocha was late and inadequate. (Photo: Friends of the Earth International)

In one accident in June 2000, a truck carrying mercury from the Yanacocha mine spilled 151 kg of its load while passing through the small town of Choropampa. People gathered up the mercury, believing it to be a valuable metal. Symptoms of mercury poisoning (skin irritation, headaches, diminished eye sight, kidney problems, stomach aches, etc.) emerged a few days later among 50-70 local residents, including many children. Several of them were hospitalised and one woman became blind. Villagers are still coping with sore eyes, aching backs and severe skin rashes. Investigation and treatment of the spill have been inadequate.[45]

The Choropampa community has called for a serious evaluation of the spill's health impacts, the presence of a doctor to monitor them for 10 years, and economic compensation for health damages and business losses after neighboring communities refused to buy what they feared would be contaminated crops.[46] Campesino communities living close to the mine raised an official complaint, asking for the creation of a fund to clean up the community's water. Furthermore, they demanded a reclamation and preservation program for medicinal plants, a fish and frog repopulation program and compensation for former landowners in the form of equivalent land and funds to re-establish farms.

Many of these measures would cost a fraction of what this profitable gold mine earns. However, Yanacocha's responses have not been satisfactory. In April 2003, the company published a report of the spill that ignored the direct impacts on human health. The IFC commissioned a lengthy dialogue process that, after two years, resulted in two studies. These studies, related to the water quality and the health situation, have yet to be finalized. Meanwhile, the inhabitants of Choropampa have not received adequate treatment.

Social disruption and disempowerment

The Peruvian government established a special law to ensure that half of the taxes paid by the mine are invested back into the region. However, since the start of mining operations in 1993, Cajamarca has become the second poorest district in Peru.[47] While Cajamarca's poverty level is increasing, a few individuals benefit tremendously and enjoy expensive dollar-denominated luxuries.

The unequal distribution of the mine's costs and benefits has caused major conflicts within Cajamarca. Neighbors fight amongst themselves and friends turn into enemies. "Everybody here has dealings with the mine in one way or another," say local residents. The fragmentation among the Cajamarquinos is well known throughout Peru and has resulted in an atmosphere of suspicion and a significant loss of trust in the mining corporation and in the IFC.

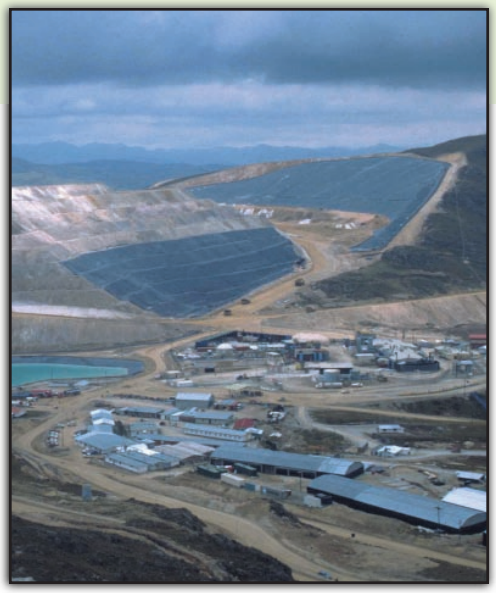
Farmer families displaced by the mine are moving into the city of Cajamarca where they have no way of making a living while the urban migration is tearing the communities' social fabric. Men are forced to leave home to find a job, traditional indigenous practices are being forgotten and families lose their community support structures. All this has resulted in a significant increase in domestic violence and other social ills. Cajamarca now has "a booming prostitution trade, where girls as young as 14 sell themselves to miners without protection from HIV and other sexually transmitted diseases."[48]

In October 2000, the municipality of Cajamarca issued an intangibility declaration for nearby Mount Quilish, denouncing an expansion of mining to Mount Quilish in order to protect the city's water sources. Yanacocha decided to fight the declaration and appealed to the constitutional court. In April 2003, the court ruled that the municipality has a right to issue a declaration, but also allowed the possibility of mining if it does not affect the environment or Cajamarca's water sources.[49] What particularly angers local residents is that despite the city's declaration and Yanacocha's repeated vows to seek a "social license" of operation from the community, the company went to court twice to ensure their right to expand their mining operations.

Corruption risks

In 2001, allegations surfaced that Newmont had bribed a Peruvian judge to rig a 1998 court ruling over ownership of Yanacocha. Newmont and the French mining company BRGM were involved in a major legal dispute concerning ownership of half of BRGM's shares in Yanacocha. In a videotape, ex-Peruvian President Fujimori's intelligence chief Montesinos is shown pressuring a judge to rule in favor of Newmont. Montesinos informed the judge that officials from the U.S. Embassy and the U.S. Under Secretary for Latin America were interested in seeing the case resolved in Newmont's favor.[50]

In a January 2002 letter to Project Underground, an environmental organization, IFC announced that it would not investigate these allegations because of "insufficient evidence." Although IFC is bound by Bank policy of "zero tolerance" for fraud and corruption, it refuses to conduct a full investigation into this matter. The World Bank's Corruption and Fraud Investigations Unit cited a lack of jurisdiction over the complaint because the Bank was not a direct victim.



Peru's Yanacocha gold mine, partly financed and owned by the IFC, is one of the world's largest gold mines, spanning five mountains. Against the explicit wish of the local population, Yanacocha intends to expand the mine to a sixth mountain that contains important water sources for the nearby city of Cajamarca. (Photo: Sjoerd Panhuysen)

outcomes. In poor governance situations, the Bank should focus not on promoting new investment by the private sector in extractive projects, but rather on improving overall governance as well as governance in the sector. Revenue management, environmental monitoring and effective legal regimes are examples of areas to be addressed. The review also finds that capacity building for environmental and social management is a relatively low-cost and sustainable contribution to the development of client countries.[51]

Be more selective immediately

While the World Bank should move to phase-out fossil fuel and mining projects, it should immediately implement a ban on new extractive industry projects in certain areas. For example, the Bank should not finance extraction in protected areas. Nor should it invest in areas of civil disturbance and unrest, particularly given the links between conflicts, human rights abuses and extractive industries. In all projects, security arrangements should be revealed publicly. The Bank should only invest in a project when local communities have given prior informed consent for that particular project. The Bank should also be more selective about the processes it supports. For example, the Bank should immediately cease support for mining projects that involve riverine or submarine tailings disposal. Finally, the Bank should direct its mining and energy sector investments towards mine closure, job transition, and environmental restoration.

[1] Data taken from World Bank submissions to the Extractive Industries Review. Available at www.eireview.org

[2] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume II, pp. 6-9.

[3] Monica Weber-Fahr (2002) "Treasure or Trouble? Mining in Developing Countries," World Bank, p. 7.

[4] Michael L. Ross (2001) "Extractive Sectors and the Poor," Oxfam America.

[5] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume III, pp. 11.

[6] The Millennium Development Goals summarize the development goals agreed on at international conferences and world summits during the 1990s. At the September 2000 Millennium Summit, world leaders distilled key development goals and targets in the Millennium Declaration. Based on the declaration, the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations and the World Bank devised a set of eight goals, 18 numerical targets and over 40 quantifiable indicators to assess progress. The eight goals are: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development.

[7] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume I, p. 6.

[8] Ibid., p. 5.

[9] Ibid., p. 6.

[10] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume II, p. 50.

[11] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume III, p. vii.

[12] Jeffrey D. Sachs and Andrew M. Warner (1997) *Natural Resource Abundance and Economic Growth.*

[13] Ibid., p. 2.

[14] Ross "Extractive Sectors and the Poor."

[15] Michael L. Ross (2000) "Does Resource Wealth Impede Democratization?" 21 April.

[16] Paul Collier and Anke Hoeffler (2002) "Greed and Grievance in Civil War," World Bank.

[17] Mark Drajem (2002) "BP's Azerbaijan Oil Project May Get $500 Million World Bank Aid." *Bloomberg News,* 19 June.

[18] The World Bank claims that the project presents the best development option for Chad and Cameroon since there is no other way of rapidly increasing government revenues. For more information, see Centre pour l'Environnement et le Developpement, Association Tchadienne pour la Promotion et la Defense des Droits del'Homme, and Environmental Defense Fund (1999) "The Chad Cameroon Oil and Pipeline Project: Putting People and the Environment at Risk." Available at http://www.environmentaldefense.org/documents/728_ChadCameroon%5Fpipeline%2Epdf

[19] The project's environmental assessment does not include site-specific Oil Spill Response Plans, as would be required in the United States. See Environmental Defense Case Study at http://www.environmentaldefense.org/documents/2449_casestudy%5Fchadcameroon%2Epdf

[20] Interview contained in Centre pour l'Environnement et le Developpement and Friends of the Earth International (2002) "Traversing People's Lives." Available at www.foei.org

[21] For more detailed health information, see Centre pour l'Environnement et le Developpement, Association Tchadienne pour la Promotion et la Defense des Droits del'Homme, and Environmental Defense (2002) "The Chad-Cameroon Oil and Pipeline Project: A Call for Accountability," p. 18. Available at http://www.environmentaldefense.org/documents/2134_Chad-Cameroon.pdf

[22] See the U.S. Department of State's country human rights reports which detail the human rights situation in the countries. Available at http://www.state.gov/g/drl/hr/

[23] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume III, pp. 4-6.

[24] Ibid., p. 4.

[25] Ibid., pp. 5-6.

[26] Ibid., p. 4.

[27] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume II, p. 21.

[28] Ibid, p. 27.

[29] Dana Clark, Jonathan Fox and Kay Treakle (eds) (2003) *Demanding Accountability: Civil Society Claims and the World Bank Inspection Panel* (forthcoming).

[30] National Thermal Power Corporation (1991) "Environmental Study of Singrauli Area" (performed by Electricité de France [EdF]), p. 52.

[31] Clark, Fox and Treakle *Demanding Accountability.*

[32] Available at www.worldbank.org/inspectionpanel

[33] Clark, Fox and Treakle *Demanding Accountability.*

[34] Ibid., p. 184.

[35] *Georgia Online* (2003) "Dismissal of Borjomi Administrator Drew Public Backlash," 28 May.

[36] Natalia Antaleva (2003) "Precious Pipeline." *Forbes Global,* 9 June, p. 22.

[37] Information from project EIAs available at www.caspiandevelopmentandexport.com

[38] A scanned portion of the document is available at http://www.seen.org/pages/ifis/wb_leak2.shtml

[39] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume III, p. 8.

[40] "NGO Platform Calling on the World Bank Group to Phase Out Financing Oil, Gas and Mining Projects," April 2000. Available at www.foei.org

[41] See for example http://www.ifc.org/enviro/EMG/Renewable/renewable.htm

[42] See World Bank. "Rural and Renewable Energy." Available at http://www.worldbank.org/html/fpd/energy/e3.htm

[43] IFC Project Summary Sheet at www.ifc.org/ogc/eirprojects/docs/Yanacocha.pdf

[44] According to a study by the Peruvian government's Technical and Scientific Commission in 2000, levels of aluminum, zinc, copper, iron and manganese significantly exceeded World Health Organization (WHO) guidelines at multiple river and stream sites in the area. At one site, aluminum concentration exceeded WHO limits by more than 15 times. "International Right to Know: Empowering Communities Through Corporate Transparency," p. 9. Available at www.irtk.org

[45] For more information, see Oxfam America, "Choropampa: The Price of Gold." Available at http://www.oxfamamerica.org/publications/art2215.html

[46] The Federation of Rondas Campesinas of Northern Peru (FEROCAFENOP) and Project Underground (2001) "Complaint Concerning Minera Yanacocha, S.A." Filed with IFC Compliance Advisor and Ombudsman.

[47] According to statistics by Fondo Comun de Desarrallo (FONCODES), in the 1980s, Cajamarca
was ranked 4th. Now, ten years after the mine began operating, Cajamarca ranks 2nd.

[48] See Pamela White (2002) "The Real Price of Gold." *Boulder Weekly.* Available at http://www.boulderweekly.com/archive/051602/coverstory.html

[49] Ruling of the Constitutional Court of Peru, Lima, April 7, 2003.

[50] More information available at http://www.moles.org or http://www.foei.org/ifi/yanacocha.html

[51] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume II, p. 31.

The World Bank Risks the World's Forests

In developing countries from Cameroon to Indonesia, unsustainable logging has generated quick profits for corporations and government elites and decimated the resources that a majority of the population depends upon. Efforts to promote "sustainable forest management" are often thwarted by corruption or by government departments that lack the capacity and resources to monitor and enforce forest protection measures. In addition, the scientific debate as to how "sustainable" forestry operations can be or whether "sustainable forest management" is even possible in tropical forests has not been conclusive to date. Given past evidence and ongoing uncertainties, a precautionary approach is preferable to the high-stakes gamble of large-scale logging investments.

Despite these risks, the World Bank is poised to engage in more lending for commercial forestry. The revised World Bank Forest Strategy and Policy of 2002 endorses a high-risk approach to the forest sector and allows lending for large-scale commercial logging in rainforests, without proven safeguards. This new approach was approved in apparent disregard for prevailing evidence and the Bank's negative capacity building and environmental performance record.

Direct forestry lending, which has typically accounted for a relatively small part of the World Bank's portfolio, is only one part of the problem. Perhaps even more important is the damage to the world's forests that results indirectly from other World Bank-funded projects and programs. The activities of the World Bank — from road-building projects to agriculture support, and from economic reform programs to energy sector restructuring — often have serious repercussions on the world's forests, on the more than 500 million people worldwide that depend on forest resources for their livelihood, and more broadly, on the world's biodiversity and climate. The World Bank's high-risk approach to the sector is aggravated by the institution's unwillingness to account for the direct and indirect impacts that Bank structural adjustment lending and "advice" has on the forest resources of borrowing countries.

> ***"The Bank's performance on environmental safeguard policies remains contentious. Implementation has been mixed … [Environmental Assessments] are often not completed soon enough in the project cycle to have much impact on project design."***
>
> OED, "Promoting Environmental Sustainability in Development", 2002

Forest destruction and uncontrolled logging in Cameroon's southern rainforest. Rapacious logging interests, market forces, and weak government capacity converge to create enormous risks for the region's forests and forest peoples. (Photo: Korinna Horta, Environmental Defense).

During the 1970s and 1980s, the World Bank came under severe public criticism for the massive deforestation caused by loans for agriculture, colonization and infrastructure in Brazil and Indonesia. A local and international outcry over financing for logging in West Africa's rapidly dwindling rainforests followed. Fearing serious damage to the institution's reputation, the World Bank's Board decided that it was time to adopt a new forest policy to cover all forest-related lending. As a result, a more participatory and precautionary Forest Policy was adopted in the early 1990s. However, in practice this policy was not implemented. In 2002, instead of establishing accountability mechanisms and strengthening implementation, the World Bank reacted by weakening its Forest

Policy and stripping the existing policy of key safeguard provisions. In the Bank's parlance, this new high-risk approach is euphemistically referred to as moving from a "do no harm" to a "doing good" strategy.

Evolution of the Bank's approach to forests

From 1949 to 1991, World Bank direct lending for forestry totaled $2.5 billion, with additional millions of dollars dedicated to financing forestry components in agriculture, energy and other projects.[1] Prior to the adoption of the World Bank's first forestry policy paper in 1978, 95% of Bank forestry lending was directed towards "industrial projects" such as commercial plantations and sawmills. According to a 1991 review by OED, entitled "Forestry Development: A Review of World Bank Experience," this strategy was consistent with the prevailing approach to development of the 1960s and 1970s; namely, that idle natural resources should be exploited.[2]

> ***"Country and task managers and client governments perceive Bank involvement in the forest sector as entailing higher transaction costs and reputational risks than involvement in other poverty-alleviating sectors."***
>
> OED, "The World Bank Forest Strategy: Striking the Right Balance," 2000

The 1978 Forestry Policy seemed to signify a small shift in the Bank's approach to forest lending, with the promotion of "new style" projects that "typically involve[d] very large numbers of beneficiaries and a much broader set of development goals (e.g., economic growth, fairer income distribution, enhanced energy supplies, sustainability)."[3] OED's 1991 analysis claimed that after 1978, "a major effort was made to finance social and rural development and environmental forestry projects."[4]

Loading logs near Dja Wildlife Reserve, a UNESCO World Heritage site, in southeastern Cameroon. (Photo: Korinna Horta, Environmental Defense)

However, the 1978 Forestry Policy did not prevent the World Bank from embarking on major projects that spelled disaster for some of the world's most biodiversity-rich forests. Better known examples include lending for Indonesia's Transmigration Program and colonization schemes in Brazil's northwestern Amazon. This was followed by projects in West Africa that included major logging components in the region's rapidly dwindling rainforests. These loans in support of logging were made at a time when global deforestation was increasing rapidly and there was little scientific evidence to indicate that sustainable management of biodiversity-rich tropical forests was even feasible. These ill-conceived investments caused an international outcry that turned the Bank's forest-related activities into the most contentious area of its lending. The controversy presented serious risks to the Bank's reputation while preparations for the 1992 Rio Earth Summit focused world attention on the need for international cooperation to protect the global environment.

After an intense public debate in the early 1990s, the World Bank adopted a new Forest Policy Paper in 1991 that applied to the entire World Bank Group. The ploicy was translated into new operational directives for the Bank's public sector lending activities (IBRD and IDA) and for the IFC in subsequent years. Indeed, the World Bank's 1991 Forest Policy Paper represented an innovative framework emphasizing poverty alleviation, community-based development and civil society participation in all lending operations with potential impacts on forests. The policy also adopted a precautionary approach to the financing of large-scale logging operations, proscribing all support for logging in primary moist tropical forests, which are thought to contain most of the earth's terrestrial biodiversity.

Bank staff, however, considered the new policy to be too conservationist and argued that it was imposed on the Bank by environmental pressure groups. They perceived the policy to be an impediment to lending for forestry investments, and labeled this the "chilling effect."[4] However, contrary to the "chilling effect" claims, OED reported that forestry lending in the 1992-1999 period was actually 78% higher in nominal terms than during the 1984-1991 period.[6]

In fact, the precautionary 1991 Forest Policy was not implemented in practice. Despite assertions from World Bank staff that loans were not funding logging operations, forestry sector loans in the early 1990s to countries such as Cote d'Ivoire and Gabon

systematically encouraged institutional measures to support and extend logging. In 1993, the Gabon Forestry and Environment Project was approved for a country whose unique tropical rainforests are home to more than 8,000 species, 20% of which are endemic. The stated goal of the project, according to the Staff Appraisal Report, was to "improve the competitiveness of Gabon's timber exports while safeguarding forest resources."[7] The project featured loan conditions that encouraged privatization of the forestry sector to increase timber extraction, but failed to conduct surveys of biological diversity or of affected communities. Linking commercial forestry with environmental activities gave the loan the appearance of compliance with the recently introduced policy. This strong (albeit indirect) support for timber exploitation posed a serious threat to the biodiversity-rich forests and forest-dependent peoples of these countries.

"Resources are lacking to track the progress of forest operations whether globally or locally, while arrangements for safeguard policy compliance are weak."

OED, "The World Bank Forest Strategy: Striking the Right Balance," 2000

Although the 1991 Forest Policy Paper called for a multisectoral approach, requiring that the Bank consider the impact of all of its activities on forests, this provision was often ignored in Bank operations. Bank-supported infrastructure projects, such as roads and dams, and agricultural projects that led to the conversion of forestland, continued to be a means by which the Bank indirectly subsidized forest destruction. In a number of cases, environmental assessment processes failed to capture the indirect impacts that these projects would have on neighboring forest areas and forest peoples, as well as the capacity of the government and/or investors to manage these impacts. Without specific attention paid to these multisectoral impacts of Bank lending, forests came under additional threats. For example, in 1996 the Bank's Infrastructure Department prepared a $60.7 million loan for Cameroon's transport sector. This loan included the maintenance and rehabilitation of a 13,783 km road network, with some of the roads going right into Cameroon's southeastern and coastal rainforests which are home to indigenous and forest-dependent peoples. Although these forest areas were already under logging pressure, this Bank loan failed to require a full environmental impact assessment.

Another area of Bank lending, World Bank-imposed economic reforms known as structural adjustment

Structural Adjustment in Cameroon: Disastrous Consequences for Forests

In the 1990s, the attention paid to Cameroon's threatened forest ecosystems by local and international NGOs caused the World Bank to shelve a planned forestry sector loan for the country. Instead, it opted to address Cameroon's forest problems in successive structural adjustment loans. This was done by adding specific measures concerning forest management to standard trade liberalization and export-promotion conditionalities. However, the Bank failed to consider the forest impacts of its economic policy advice. It also ignored the Cameroonian government's lack of commitment to genuinely reform the forestry sector, and failed to promote meaningful public participation.

The Bank was heavily engaged in promoting currency devaluation in Cameroon. In January 1994, the Franc CFA was devalued by 50%. Following the devaluation, which reduced the price of Cameroonian products on the world market, Cameroon's exports of raw logs increased by 34%.[8] In addition, budget cuts recommended by the Bank resulted in the unemployment of large numbers of village extension workers in rural areas who had few options other than illegally cutting trees in forest reserves or hunting to make a living.[9] Both measures led to enormous additional pressure on the country's forests.

As to the specific forest conditionalities, a report by OED concluded that the Bank failed to devise an implementation strategy that was compatible with the country's prevailing political conditions. Furthermore, despite its stated intentions to promote the interest of local communities, the Bank did "little to gather their views and to design mechanisms that would ensure that those views were taken into consideration." In conclusion, OED states that the Bank's interventions inside and outside the forestry sector in Cameroon "were neither efficacious nor efficient."[10]

Forest Concessions in Cambodia: A Safe Bet?

"Environmentalists, scouring Cambodia's jungles for evidence of illegal logging, ask a passing farmer where trees are being cut down. 'Take any path,' he replies. He is right: despite restrictions on felling trees and a ban on transporting timber, proof of illegal logging is easy to find. Lorries loaded with wood ply the roads in forested areas. Workers at a sawmill readily admit that they receive fresh supplies of timber every week. And all this is happening three years into a World Bank project to transform Cambodia's rapacious logging concessionaires into prudent 'forest managers'."[11]

In the mid-1990s, NGOs drew attention to the role that the exploitation of Cambodia's forests was playing in that country's civil war. While this problem has since subsided, illegal logging, environmental degradation and the resulting impacts on the 85% of Cambodians who depend on forest resources continue to be issues of serious concern.

A 1996 report by the World Bank and other international agencies detailed the problems present in Cambodia's forestry sector, including weak regulatory capacity, extensive illegal logging, and environmental concerns emerging from a flawed forest concession system. In response to this assessment, the World Bank called for "market-oriented policy reforms … together with improved control of forest areas" which "could increase government revenue in the order of over $100 million per year, while better sustaining these resources and their vital environmental and social functions."[12]

While subsequent technical assistance studies led the World Bank to revise these revenue estimates downward to $40-80 million, the Bank's support for the concession system prevailed. Despite all evidence that logging concessions in Cambodia are not being managed in a sustainable manner, that the system may be further impoverishing rural Cambodians, that illegal logging continues, and that official logging revenue has rarely exceeded $10 million, the World Bank approved a $4.8 million Forest Concession Management Control Pilot Project in 2000. The Forest Concession Management Project is complemented by forest-related conditionalities in a $30 million structural adjustment credit.

The Bank's "proactive approach to production forestry" intended for these loans to support forest management and control under the concession system and to establish forest crime monitoring capability.[13] However, the government recently terminated the independent monitor's contract, has failed to comply with the adjustment loan's conditionalities, and in general, has shown little willingness or ability to control rampant illegal and unsustainable logging under the concession system.

While the World Bank has suspended the second release of structural adjustment funds for reasons of government non-compliance, and is currently reviewing the performance of the Forest Concession Management Project, it seems determined to support a failing forestry system and a forestry department that shows no interest in reform. "[T]he World Bank's forestry representative in Cambodia, says discussions are underway to compensate the displaced villagers, close the regulatory loophole … and hire new monitors to guard against further abuses. But if the pace of past reforms is anything to go by, many more trees will disappear before those discussions bear fruit."[14] In the meantime, villagers decry the abuses of forest policy in Cambodia and the environmental and social costs they are forced to bear.

programs, contributed to significant forest loss in countries such as Indonesia and Cameroon.[15] The OED forest review identified trade liberalization and export promotion as being major causes of deforestation.[16] Measures to liberalize trade and to promote exports lie at the very heart of World Bank structural adjustment policies. For example, structural adjustment loans often require that governments devalue the local currency in order to make exports more competitive on the world market. Devaluation without specific safeguard measures increases incentives for timber exploitation; foreign companies see their local costs fall and their revenues increase as timber exports become less expensive in hard currency terms. In addition, budget cuts demanded as part of the structural adjustment programs may reduce the regulatory capacity of the environment and forest departments to manage the country's resources.

Yet, as the OED found, the Bank has paid little attention to the impact of structural adjustment lending on forests. According to OED, forest issues were not considered in most country assistance strategies, nor were they a consideration in the Bank's economic and sector

analyses, even in countries where the forestry sector is economically important.

OED's 2000 report noted: "Bank influence on containing rates of deforestation in tropical moist forests has been negligible in the 20 countries identified for the Bank focus." The study also found that the Bank had failed to address key drivers of deforestation such as corruption and weak governance.[17]Despite these strong criticisms, OED came to a stunning conclusion. Heavily influenced by Bank staff eager to increase forestry lending, OED concluded that investments in logging might actually conserve natural forests — a claim belied by all available evidence. The OED review recommended that the Bank should counter the "chilling effect" on lending and the risk-averse behavior by Bank staff.[18]

This recommendation was used by Bank management to condemn strict environmental and social safeguards, as well as a "precautionary approach" in general. The Bank argued that it must "re-engage" in the forestry sector and that it could not do so effectively with the existing prohibition against financing logging activities in tropical forests. Although an extensive consultation exercise with civil society took place during the rewriting of the Forest Policy, the recommendations from NGOs were largely ignored in the policy's revision. The new Forest Policy removes the ban on the financing of commercial logging in primary tropical moist forests while providing no new protections for forests or forest peoples, except for ill-defined and unproven forest certification schemes. Despite a global call for the policy to address the impacts of the Bank's macroeconomic programs on forests, it also does not apply to structural adjustment lending. Although environmentalists, development groups, community organizations and others who participated in the forest policy consultations were extremely critical of the high-risk approach favored by the new forest policy, it was approved by the World Bank's Board of Directors in 2002.

"[P]olicies associated with economic crisis and adjustment — such as devaluation, export incentives, and the removal of price controls — tend to boost production of tradable goods, including agricultural and forest products. In doing so, if there are no mitigatory measures, they encourage forest conversion. Moreover, the constrained fiscal situations associated with IMF/Bank stabilization adjustment programs lead to reduced public spending on environmental protection and reduce the forest and environment ministries' already weak capacity to enforce laws and regulations."

OED, "The World Bank Forest Strategy: Striking the Right Balance," 2000

High-stakes gamble

The World Bank's failure to address the risks of its lending operations on forests undermines its self-proclaimed mission of poverty reduction and environmentally sustainable development. Forest degradation and destruction carries significant environmental and social penalties, especially in the poorest countries of the world where the Bank operates. An estimated 500 million people worldwide depend directly on forests for their livelihoods. The loss of these resources, from forest products such as fuel, food, building material and medicine, to forest services including watershed and erosion protection, causes severe hardship for forest-dependent communities. For many of these communities and in particular for the close to 60 million indigenous and tribal people who live in the forests of Latin America, Southeast Asia and West Africa, the forests are intrinsic to their way of life and to their social and cultural identity; forest destruction and degradation threatens their very survival.

World Bank lending that contributes to deforestation also poses severe environmental risks. The tropical forests found in many of the Bank's borrowing countries are some of the world's most biodiversity-rich areas. The loss and degradation of their habitat threatens species, some of which are endangered or endemic to that particular forest area. Forests also provide critical environmental services such as watershed protection and help guard against desertification.

Corruption has long been a major issue in the forestry sector of some of the Bank's borrowing countries. The World Bank itself estimates that developing countries are losing about $1 billion every year in revenue as a result of corruption in the forestry sector.[19] Yet attempts by the Bank to address corruption and governance issues through forest policy reform and structural adjustment conditionality have produced mixed results.[20] While the World Bank acknowledges that the "lack of institutional capacity" is the "principal impediment to long-term sustainable forest management"[21] in a number of its

Chad-Cameroon Pipeline and Forest Destruction

The Operational Policy on Forestry of 1993 committed the Bank to a multisectoral approach. As such, the Forestry Policy should have been applied to the construction of the Chad-Cameroon oil pipeline where it traverses Cameroon's coastal rainforest — a region rich in biodiversity and home to indigenous Bagyeli people.

A central requirement of the policy was to set aside compensatory funds for preservation forests to protect biodiversity and safeguard the interests of forest dwellers, specifically their rights of access to and use of designated forest areas.

The pipeline project has indeed led to the establishment of two biodiversity offset areas, although one of them had previously attained conservation status and as such had benefited from Global Environment Facility (GEF) funding. However, the project did not include adequate resources to fund the management of these areas and one of them is now facing increasing threats from logging.

Worse is the situation of the Bagyeli people who, in large part, continue to be semi-nomadic hunters and gatherers. The project did not take steps to legally secure the Bagyeli's land rights, and failed to ensure adequate compensation for their losses. A foundation set up to address their problems failed to consult with the Bagyeli during the development of an Indigenous Peoples Plan. The Plan therefore does not identify or address the disturbance of wildlife, bushmeat hunting by encroachers, population increases and deforestation that are having severe impacts on the Bagyeli as a result of pipeline construction.

The Chad-Cameroon pipeline cuts through Cameroon's coastal rainforests, home to Bagyeli communities. According to one Bagyeli man, "We live by the hunt but we get nothing for the destruction of the forest. (Photo: Forest Peoples Programme)

forest-rich borrowing countries, the Bank's general institutional development and capacity building performance is notoriously weak.[22] Therefore, World Bank lending that supports — directly or indirectly — timber exploitation may help fuel unsustainable and often illegal logging that benefits only a few government elites and private (often foreign) corporations, despite promises of simultaneous capacity building and reform. In countries like Cambodia, plagued by corruption and cronyism and with inadequate capacity or political will to reform, World Bank support for productive forestry systems has proven to be extremely risky. These environmental and social risks, as well as the costs of corruption, have been borne by local populations, especially the most vulnerable groups in World Bank borrowing countries.

The risks of Bank activities for forests and forest peoples are exacerbated by a lack of democratic rights for affected people and a lack of critical land tenure and community property rights. Without the security and authority that these rights convey, affected people are unable to confront, manage or recover from the loss of their forestland and access to forest resources. Furthermore, the lack of accountability of governments and the private sector contributes to problems of corruption and encourages rapid, unsustainable timber extraction without regard for its social and environmental costs. Regulatory issues, such as the capacity and funding of government departments and incentives granted to the private sector, also affect the risks of the Bank's activities for forests.

Risk mitigation?

To address the risks described above and uphold its stated poverty reduction mission, the World Bank has adopted policies that promise participation of local people in project development, the recognition of rights of indigenous peoples, an environmental assessment process, the protection of critical habitats and a multisectoral approach to addressing lending activities' impacts on forests. However, these policies have been rarely — if ever — implemented in a meaningful way. Even the Bank's own OED concluded in a 2002 study that "[o]verall, performance in the area of safeguards has been only partially satisfactory. Fundamental reform of implementation and accountability processes is critical."[23]

Another "risk-management" tactic has been to rename projects in an effort to disguise their potentially negative

impacts on forests. Traditional forestry loans have become "natural resource management and environment" projects, but the risks of these projects remain the same. In addition, some structural adjustment loans have imposed forest-related conditionalities on the borrower in an effort to encourage sounder forest management. Studies have shown how critical the "right conditions" are to the success of this strategy, and how variable the results are in practice.[24] In the case of Cambodia and Cameroon, for example, those conditionalities have only met with very limited success in managing the risks to the forestry sector (see Boxes on pages 21 and 22).

In the early 1990s, the World Bank attempted to manage the forest-related risks of its lending in part by refusing support for commercial logging activities in a particularly sensitive forest type. As reflected in the 2002 Forest Policy, the Bank has rejected this "risk-averse" provision and will now attempt to address forestry sector risks through reliance on untested and unnamed forest certification schemes, a safeguard policy of undetermined effectiveness, and the judgment of Bank task managers.

The World Bank's own internal evaluators have identified the crux of the matter by attributing Bank failures to "the lack of consistent management commitment to the environment coupled with a lack of consistent management accountability."[25] However, measures to address these fundamental institutional problems continue to be lacking.

"Environmentalists, scouring Cambodia's jungles for evidence of illegal logging, ask a passing farmer where trees are being cut down. 'Take any path,' he replies. He is right: despite restrictions on felling trees and a ban on transporting timber, proof of illegal logging is easy to find. … And all this is happening three years into a World Bank project to transform Cambodia's rapacious logging concessionaires into prudent 'forest managers'."

The Economist, "Just Chopping it Down," August 7, 2003.

Alternatives to a High-Risk Approach to Forests

Considering the risks detailed above and the people who bear those risks, the World Bank should ensure the implementation of real safeguards to protect against direct or indirect negative impacts of its activities — and avoid lending where those risks cannot be mitigated. Instead of promoting the high-risk approach enshrined in the revised Forest Policy, the Bank should, at minimum:

- Examine and account for the impact on forests of all types of World Bank lending and non-lending activities;
- Refuse to finance activities that can lead to forest loss, especially in primary forests — whether they are tropical humid, dry, temperate or boreal forests;
- Promote the recognition of customary land rights of forest-dependent people and support small-scale projects developed in consultation with local people for alternative income generation;
- Help countries to build the capacity to combat illegal logging.

At the local level, projects have to be developed in close consultation with the communities living in and around forests and address their priorities. Investments in community forestry as well as the marketing of non-timber forest products that are sustainably produced could benefit local communities. Investments in training and alternative income-generating activities could help build local economies. These activities would also add to our knowledge of sustainable forest management.

At the national level, investments in long-term capacity and institution building are often needed to help governments value and carefully manage their forest resources. Specific training in the fight against illegal logging and corruption in the forestry sector, as well as in monitoring the activities of the often very powerful transnational logging companies, could bring substantial benefits to a country's economy.

[1] Operations Evaluation Department (1991) "Forestry Development: The World Bank Experience," World Bank. Available at http://lnweb18.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/5EF3153BDD265CE28525681C00697107?opendocument.

[2] Ibid.

[3] Ibid.

[4] Ibid.

[5] Operations Evaluation Department (2000) "The World Bank Forest Strategy: Striking the Right Balance." World Bank, p. 8.

[6] Ibid., pp. 8-9.

[7] World Bank (1992) "Staff Appraisal Report: Forestry and Environment Project for Gabon," p. 17.

[8] Kaimowitz et al. "Forests Under Structural Adjustment in Bolivia, Cameroon and Indonesia."

[9] R. Tschoungi, S. Gartlan, J.A. Mope Simo, F. Sikod, A. Youbi, and M. Ndjatsana (1996) "Case Study for Cameroon," in David Reed (ed). *Structural Adjustment, the Environment and Sustainable Development.*

[10] OED "Cameroon — Forest Sector Development in a Difficult Political Economy," p. xxii.

[11] *The Economist* (2003) "Just Chopping it Down," August 7.

[12] World Bank, United Nations Development Program, and Food and Agriculture Organization (1996) "Cambodia Forest Policy Assessment," as cited in Bruce McKenney (2002) "Questioning Sustainable Concession Forestry in Cambodia." *Cambodia Development Review,* January-March, p. 2.

[13] World Bank (2000) "Project Appraisal Document: Forest Concession and Management Project for Cambodia," p. 11.

[14] *The Economist* "Just Chopping it Down."

[15] Operations Evaluation Department (2000) "Cameroon — Forest Sector in a Difficult Political Economy," World Bank.

[16] OED "The World Bank Forest Strategy: Striking the Right Balance," p. xxii.

[17] Ibid., p. xii.

[18] Ibid., p. 29.

[19] World Bank (2001) "A Revised Forest Strategy for the World Bank Group" (June draft), Annex 3-16.

[20] See OED "The World Bank Forest Strategy: Striking the Right Balance," p. 13 and Frances Seymour and Navroz Dubash (2000) "The Right Conditions: The World Bank, Structural Adjustment, and Forest Policy Reform." World Resources Institute.

[21] Seymour and Dubash "The Right Conditions," p. 3.

[22] See Operations Evaluation Department (2003) "2002 Annual Review of Development Effectiveness." World Bank.

[23] OED "Promoting Environmental Sustainability in Development," p. 21.

[24] See Seymour and Dubash "The Right Conditions" and D. Kaimowitz, O. Erwidod Noye, P. Pacheco, and W. Sunderlin (1997) "Forests Under Structural Adjustment in Bolivia, Cameroon and Indonesia." Center for International Forestry Research (CIFOR).

[25] OED "Promoting Environmental Sustainability in Development," p. vii.

The World Bank and Large Dams: Failure to Learn from History

As the 1992 Wapenhans report documented, the World Bank is geared towards lending large amounts of capital for centralized, top-down projects. Large dams are therefore an attractive funding option. Until 1993, the Bank made 527 dam-related loans for a total of $58 billion (in constant 1993 dollars).[1] From 1993-2002, hydropower and irrigation accounted for 8% of all World Bank lending.[2]

For more than 10 years, large dams have been symbolic of the World Bank's approach to high-risk projects. As the Bank's senior water adviser puts it, lending for big dams accounts for about 10% of the institution's portfolio but 95% of its headaches.[3] Several public-relations disasters generated by large dams helped to catalyze the institution's shift away from high-risk projects in the mid-1990s. More recently, however, the World Bank's return to large dams has demonstrated that it has overcome its earlier scruples regarding the impacts of high-risk projects.

Involuntary risk bearers

"Traditional practice is to restrict the definition of risk to the risk of the developer or corporate investor in terms of capital invested and expected returns. … By contrast, as the [WCD's] Global Review has shown, a far larger group often have risks imposed on them involuntarily and managed by others. Typically, they have no say in overall water and energy policy, the choice of specific projects or in their design and implementation."

World Commission on Dams, "Dams and Development," 2000

Exclusion of human and environmental concerns

"It seems clear that engineering and economic imperatives have driven the Projects to the exclusion of human and environmental concerns," the Morse Commission noted in its independent review of the Sardar Sarovar Dam in the Narmada Valley in 1992. "As a result, benefits tend to be overstated, while social and environmental costs are frequently understated. Assertions have been substituted for analysis."[4] Assertions substituted for analysis in many other World Bank funded dam projects. Shortly after the Bank withdrew from Sardar Sarovar, the Arun III Dam in Nepal provided a new example of the shoddy appraisal process for high-risk projects. Critics both inside and outside the institution claimed that the economic analysis of the project was seriously flawed. Martin Karcher, a World Bank division chief who resigned in protest over the project, warned that the Bank's economists expected Nepali consumers to pay electricity rates that were seven times higher than the rates in Washington, D.C. "Obviously, if you use these kinds of values, then any project becomes feasible and justified," Karcher said in an interview with Environmental Defense. "The analysis merely serves to justify the project after the fact."[5]

Joe Wood, at the time the World Bank's Vice President for South Asia, proclaimed that if the Bank did not push ahead with Arun III, "the signal we'd send out is that the Bank can no longer support infrastructure projects like this."[6] It is noteworthy that the Vice President would tie the Bank's credibility to a project as questionable as the Arun III Dam. Yet James Wolfensohn, who joined the World Bank in 1995, was not interested in inheriting the problematic projects of earlier presidents. When the Inspection Panel raised serious concerns about the project, the new president decided to drop the controversial Nepal dam.

After the World Bank withdrew from Sardar Sarovar and Arun III, additional disturbing reports emerged that documented the negative impacts of many other Bank-

Tarbela: The Grandfather of High-Risk Projects

The Indus Basin Irrigation System serves a farming population of 7-10 million people in Pakistan and is the world's largest contiguous irrigation network. A main pillar of this system is the Tarbela Dam. Tarbela was built from 1968-76, and is the most massive structure mankind has ever constructed. It provides an average of 9% of the irrigation water in the Indus system, and generates 28% of Pakistan's electric power.

In March 2003, the Bank's senior water advisor called the Indus irrigation system the "grandfather of all high-risk projects."[7] The Bank and other donors financed the Tarbela Dam, one of the system's central components. The Tarbela Dam is haunted by numerous problems:

- According to IRN's Patrick McCully, Tarbela is "perhaps the world's most problem-stricken major dam" in technical terms. When the reservoir was first filled, a tunnel collapsed, and a dam break could only be prevented by a series of emergency repairs.[8] According to a WCD case study, the technical problems resulted in cost overruns of 50-81%.[9]

- 96,000 people were displaced by the Tarbela reservoir. Farmers who did not hold legal land titles did not receive compensation, and during impoundment, Pakistan's army had to drive out villagers who refused to leave their land. Two decades after displacement, 20,000 dispossessed people had still not been resettled. Compensation was paid with such extensive delays that it lost more than half its original value to devaluation — a risk that the World Bank would not expect private investors to bear.[10]

- Environmental impacts were not assessed when the Tarbela project was approved. The dam, together with associated barrages and diversions, has wiped out important fish species in the Indus and had a disastrous impact upon the ecology and economy of the huge Indus delta. Because the dams hold back sediments and divert water from the Indus, salt water is intruding 25 km upstream from the Indus delta during the dry season. At least 4,800 square km of farmland have been lost to the sea, the forest cover of Sindh province has been reduced by half due to the lack of flooding, and the mangrove forests are being seriously degraded.[11] The 3 million people involved in fisheries, the pastoralists and other groups who depend on flood recession agriculture did not receive any compensation for the damages they suffered.

- The Indus irrigation system is experiencing severe problems of waterlogging and salinity. According to World Bank reports, 38% of Pakistan's irrigated land area is waterlogged, and soil salinity has caused a 25% reduction in the production of Pakistan's major crops. (In Sindh province, the drop reaches 40-60%.) According to the WCD case study, waterlogging and salinity have "serious environmental and poverty impacts."[12] While most of the project benefits accrue in the politically powerful Punjab, Sindh has to bear the most negative impacts, which is exacerbating the political tensions within Pakistan.

supported dams. Examples included Yacyretá (Argentina/Paraguay), Pangue (Chile), and Nathpa Jhakri (India). The Bank's 1994 review of projects involving involuntary displacement presented ample evidence regarding the institution's "excessive appraisal optimism". At the time of the review, active Bank projects were displacing 2 million people, and dams (including irrigation and flood control projects) accounted for 71% of this number.[13] The review found that baseline data and resettlement plans were often lacking in such projects, compensation and rehabilitation measures were inadequate, and negative health impacts were not mitigated.[14]

In 1996, the Chinese government was looking for foreign funding to finance the giant Three Gorges Dam on the Yangtze River, which would displace between 1.2 and 2 million people. The World Bank had lent credibility to this project by coordinating the feasibility reports over an extended period. After the debates over Sardar Sarovar and Arun, neither the World Bank nor the Chinese government was interested in experiencing a similar public-relations disaster with the Yangtze dam, and the Bank refrained from funding it. Three Gorges was eventually financed by export credit agencies in what amounted to a social and environmental "race to the bottom."

The Yangtze dam decision was considered a turning point in high-risk water projects for the World Bank. The Bank had approved close to $2 billion for 13 hydropower projects in the 1990-95 period. It approved less than $600 million for only six projects from 1999 to 2002.

The messenger is shot

In response to growing public criticism, the World Bank and the World Conservation Union (IUCN), in coordination with a range of other interest groups, initiated the creation of the World Commission on Dams (WCD) in April 1997. The WCD was mandated to carry out the first-ever independent analysis of the development impacts of large dams in a broad-based, participatory process. At several instances, President Wolfensohn praised the body as a model for conflict resolution through so-called multi-stakeholder approaches.

The WCD published its consensus report in November 2000. Based on unprecedented research and consultation efforts, the report vindicated many of the concerns of dam critics. It found that "in too many cases, an unacceptable and often unnecessary price" had been paid to secure the benefits of large dams.[15] Large dams had displaced an estimated 40-80 million people, and had caused widespread environmental destruction. The WCD found that "the poor, other vulnerable groups and future generations are likely to bear a disproportionate share of the social and environmental costs of large dam projects," and that the failures to account for such impacts and to fulfill the commitments made "have led to the impoverishment and suffering of millions."[16]

The WCD took a new look at who bears the risks of large dam projects. Its report states: "Traditional practice is to restrict the definition of risk to the risk of the developer or corporate investor in terms of capital invested and expected returns. … By contrast, as the Global Review has shown, a far larger group often have risks imposed on them involuntarily and managed by others. Typically, they have no say in overall water and energy policy, the choice of specific projects or in their design and implementation."[17]

Based on these findings, the WCD put forward 26 recommendations for future water and energy projects. It proposed that "involuntary risk bearers must have the legal right to engage with risk takers in a transparent process to ensure that risks and benefits are negotiated on a more equitable basis."[18] More specifically, the Commission recommended that all future large dams should be based on the principle of "demonstrable public acceptance," that indigenous communities affected by large dams should have the right to free and prior informed consent, and that mechanisms for addressing and repairing the legacy of existing dams be established.[19]

The WCD found that financial institutions "played a key strategic role globally" in spreading and legitimizing large dam technology, and called on multilateral development banks to "[r]eview internal processes and operational policies in relation to the Commission's recommendations."[20] Yet by the time the WCD report was published, the backlash regarding social and environmental concerns was in full swing. The Bank agreed to endorse the Commission's seven Strategic Priorities, which were sufficiently vague so as not to require any specific actions. It refused to implement the specific recommendations. According to several sources, the Bank pressured other institutions not to support the recommendations of the Commission that it had helped to create.

It was again in the water sector that the World Bank officially re-embarked on a high-risk course when it embraced "high risk/high reward hydraulic infrastructure" in its Water Resources Sector Strategy of February 2003. In launching the new Strategy, Bank management even felt emboldened to present the disastrous Sardar Sarovar Dam as a supposedly successful "high-reward investment" (see Box on page 32).

Former WCD Commissioners' critique of the World Bank's water sector strategy

"We think that it is unwise to dismiss without justification or explanation the recommendations of the first-ever global review of dams reached through consensus and developed through an extensive participatory process with support from the World Bank. … The proposed risk assessment focuses primarily on the risks to the World Bank from supporting large dams, rather than the economic and financial risks, the environmental risks, or the risks to affected peoples from dams."

Letter from former WCD Commissioners to James D. Wolfensohn regarding the World Bank's draft Water Resources Sector Strategy, July 12, 2002

Where are the high rewards?

It is remarkable that the World Bank leadership has managed to set the institution on a new high-risk course without providing any empirical evidence that high-risk projects have indeed brought about high rewards. In 1996, OED carried out the first and only evaluation of the

Bujagali: High Risk for Whom?

"We now go to bed hungry," an elderly woman in Naminya says.

Naminya is a settlement of about 30 families who were displaced to make way for the Bujagali Dam on the Victoria Nile in Uganda. The resettlers complain that they never received the full compensation they were due, and that the land they received is hilly and barren. Drinking water is scarce, and toilets tend to overflow. People have lost their access to markets and firewood in the vicinity, and to the Nile for fishing. Breaking earlier promises, the project authorities have not moved their ancestral graves. "If we could, we would return to our earlier villages running," says another resettler.

The World Bank's showcase
Bujagali, a 200-megawatt hydropower project, was promoted by the U.S.-based AES Corporation. The private investor negotiated a contract with Uganda's government for the sale of electricity over a 30-year period. AES claims that the project is a "model case" of successful resettlement for close to 100 families.

In December 2001, the World Bank approved $215 million in support for the Bujagali Dam, hoping to make the project a showcase for private investment in Africa. According to the Board minutes, "[a] number of speakers commended Bank Group management and staff for their willingness to engage in such a complex and high-risk project at a time when there was a temptation to become risk averse because of outside criticism."[21]

The supposed showcase is beset by all the problems that are typical of the World Bank's high-risk projects:

- Social and environmental impacts: An investigation by the Inspection Panel found in May 2002 that the Bujagali project violated five World Bank policies, including the policies on involuntary resettlement, environmental assessment and disclosure of information.[22]

- Lack of transparency: When the World Bank approved the Bujagali project, Uganda was considered the third-most corrupt country in Transparency International's Corruption Perception Index. In spite of this, the project went ahead without full international competitive bidding. In 2002, the project's main civil contractor admitted to having bribed Uganda's former energy minister. As a consequence, the contractor had to withdraw and the project was suspended.

- Unfair deal: AES, Uganda's government and the World Bank refused to publish the project's power purchase agreement that defines Uganda's payments during a 30-year period. After the country's High Court ordered its release, a review commissioned by IRN found that the contract was deeply disadvantageous to Uganda. Under the agreement, the poor country would have to make excess payments of an average $20 million per year.[23] The World Bank had obviously not protected Uganda from an unfair deal, and the government requested a renegotiation of the contract.

- Failure to consider alternatives: Uganda has a promising potential of geothermal energy. Across the Kenyan border, this potential is exploited at a lower cost and with fewer impacts than the proposed Bujagali Dam. In Uganda, the World Bank dismissed this potential without any in-depth research. In 1997, the Bank promised the government that it would support the next dam on the Nile, without assessing any other options, in return for a liberalization of Uganda's power sector.[24]

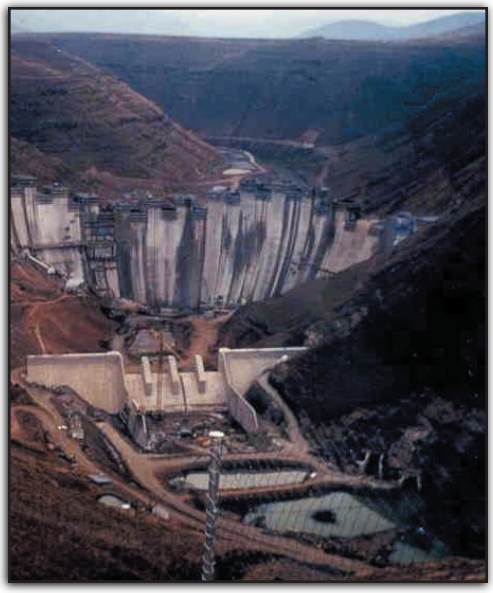
The lowest cards
In July 2002, environmental organizations raised the issue of problems being experienced by Naminya's families with AES, Uganda's government and the World Bank. Each institution responded by shifting the blame to the others. None of them were prepared to resolve the problems while the project was held up by the corruption investigation. Meanwhile, the people that have sacrificed their homes for the dam go to bed hungry.

At a presentation of the new high-risk water strategy in March 2003, the Bank's senior water advisor complained that the institution had become a "risk multiplier" instead of a "risk mitigator," and that the Bank's task managers had to bear the brunt of these risks.[25] The interests of the World Bank and equipment suppliers in high-risk projects are always well covered through legal contracts though. In Bujagali, as in other projects, it is the affected people who face the highest risks and hold the lowest cards.

In August 2003, AES decided to pull out of the Bujagali project, and the future of the dam looks more uncertain than ever. The World Bank's preference for high-risk projects appears to have set Uganda on a dead-end course, while blocking the development of other less contentious energy options.

Bank's dam projects. After studying 50 projects, OED claimed that "13 of the projects in the review can be regarded as acceptable, 24 as potentially acceptable, and 13 as unacceptable. … The finding that 37 of the large dams in this review are acceptable or potentially acceptable, suggests that, overall, most large dams were justified."[26]

In a comprehensive critique, Patrick McCully of International Rivers Network demonstrated that the OED review made a travesty of evaluation.[27] The review did not measure the actual benefits of the dam projects in terms of electricity, irrigation, flood control or navigation benefits achieved, nor did it consider the actual costs for operation, maintenance and other purposes. Instead, OED simply relied on the Bank's original projections for such costs and benefits. To use one glaring example, the OED review admitted that "it was not possible to arrive at an adequate estimate of mitigating the habitat losses" (and other impacts of large dams).[28] It instead assumed a notional cost of $10 million for mitigating habitat loss (and other impacts) — and concluded on this basis that "[t]he costs of adequately mitigating for these impacts rarely affect the economic viability of the project."[29] The inadequate methodology of its review led OED to conclude that "the Bank should continue supporting the development of large dams provided that they strictly comply with Bank guidelines and fully incorporate the lessons of experience."[30]



An internal evaluation found that World Bank water projects "responded too much to the pressure from influential segments of the population" rather than to the needs of the poor. The World Bank's Katse Dam, part of the Lesotho Highlands Water Project, has been plagued by corruption. So far, two of the foreign companies involved in the project have been convicted by the Lesotho High Court on corruption-related charges. (Photo: Korinna Horta, Environmental Defense)

The WCD report noted that "[c]onsidering the vast amounts of capital invested in large dams, substantive evaluations of project performance are few in number [and] narrow in scope."[31] The Commission analyzed dam costs, and concluded that the eight projects it had studied in detail averaged cost overruns of 89%. The 81 dams covered in its cross-check survey ran up average cost overruns of 56% (or 21% in real terms).[32] In 1996, a World Bank study showed that 66 hydropower projects that the Bank had financed suffered (real) average cost overruns of 27%.[33] (The four dams with the highest overruns were excluded from this analysis.) The WCD did not empirically evaluate the profitability of large dams or aggregate the data on dam economics that was available. The Commission did collect evidence from other institutions, which showed that many dams were barely profitable even before social and environmental costs were integrated.[34] The cost overruns and the resulting lack of profitability of large dams contributed to the unsustainable debt burden of many Southern countries.

After the WCD report was published, the World Bank announced that it would incorporate the WCD lessons into the new Water Resources Sector Strategy. As it turned out, the Strategy proposed a new era of high-risk projects while dismissing the WCD recommendations on how to better contain the systemic optimism in appraising large dams, and to empower the groups who are forced to bear the biggest risks in such projects. In a joint letter to President Wolfensohn, the twelve ex-Commissioners of the WCD commented that it was "unwise to dismiss without justification or explanation the recommendations of the first-ever global review of dams reached through consensus and developed through an extensive participatory process with support from the World Bank." The Commissioners also pointed out that "[t]he proposed risk assessment focuses primarily on the risks to the World Bank from supporting large dams rather than the economic and financial risks, the environmental risks, or the risks to affected peoples from dams."[35] With the new Water Resources Sector Strategy, the World Bank has returned to the beginning of what it has euphemistically referred to as the "learning curve" on large dams.

Alternatives: Low-Risk/High-Reward Solutions for the Global Water Crisis

More than a billion people lack access to a decent water supply. The World Bank promotes big infrastructure projects as the key to resolving this problem. Conservation and small, decentralized systems invariably offer better solutions at lower risk than large dams.

A crisis of management

The main culprit in water mismanagement is irrigation, which accounts for more than two thirds of global water withdrawals. Ill-conceived agricultural policies encourage the growth of water-intensive, wasteful crops like sugar and cotton in dry areas. And more than half of all

Sardar Sarovar: Once Again a "High-Reward" Investment?

"Perhaps, we can safely say that almost no benefit has come to the people from [big surface irrigation] projects," India's then-Prime Minister Rajiv Gandhi scolded the country's top irrigation officials in 1986. "For 16 years, we have poured out money. The people have got nothing back, no irrigation, no water, no increase in production, no help in their daily life."[36]

The Sardar Sarovar Project shows that since 1986, nothing has changed. The dam, located in India's Narmada Valley, may well be the most contentious project that the World Bank has ever financed. According to official claims, it will irrigate an area of about 1.8 million hectares, deliver water to 8,000 villages and provide a power generating capacity of 1,450 megawatts.

Numerous reports, including the independent review by the Morse Commission, documented these claims to be spurious. Efforts by movements like India's Tarun Bharat Sangh have demonstrated that the local harvesting of water can serve the needs of dry areas better, at lower cost and with much more manageable impacts than megaprojects such as Sardar Sarovar.

The World Bank's half-hearted withdrawal

Once it is completed, the Sardar Sarovar Dam will submerge an area of 37,000 hectares. It will affect remote, hilly areas inhabited by *adivasi* communities as well as prosperous agricultural lands. When the World Bank approved the project in 1985, it believed the reservoir would displace 67,000 people. Today, the number of people to be dispossessed is estimated at 215,000. This figure does not include the people affected by the irrigation canals, which will take up more than twice as much land as the reservoir, and the people living downstream of the dam.

According to World Bank policies and decisions by India's highest court and tribunal, affected people must receive equivalent land in compensation for the land they are losing to the Sardar Sarovar Project. This is not the case. Most affected communities have been offered relocation to barren land without adequate access to water, other common resources and infrastructure. The responsible authorities have frequently refused to even register the traditional land rights of the *adivasi* communities. Increasingly, affected people are forced to accept simple cash compensation as the water level is rising. Even people who were displaced for the construction of housing and offices for project officials in 1961 have not yet been properly rehabilitated.

Most people who have accepted resettlement have experienced a breakdown of community relations, impoverishment and increasing health problems.[37] Many have left the resettlement colonies to look for work in the big cities. Others have returned to their original villages that are now threatened by submergence.

Since the late 1980s, the affected communities have opposed the Sardar Sarovar Project through the Narmada Bachao Andolan (Movement to Save the Narmada). Their peaceful struggle has included demonstrations and hunger strikes, popular mobilization and international media campaigns, court action and advocacy work at the World Bank and in parliaments. After a series of long delays, the dam wall reached a height of 100 meters above sea level in the spring of 2003, with the final height planned at 139 meters.

A symbol of the new strategy

In 1985, the World Bank approved $450 million in loans for the Sardar Sarovar Dam. As the Morse Commission pointed out later, "[t]here was virtually no basis, in 1985, on which to determine what the impacts were that would have to be ameliorated."[38] The Bank never consulted affected people, and never considered essential issues such as the social and environmental impacts of the canal system or the downstream impacts of the dam. It approved financing for the project before India's Ministry of Environment and Forest had given the necessary environmental clearance. This put considerable pressure on the Ministry to clear the project irrespective of its merits or shortcomings.

The Morse Commission in June 1992 documented the World Bank's complete failure to adequately appraise the project and ensure compliance with its internal policies. It recommended that the Bank "step back from the Projects and consider them afresh."[39] In March 1993, unprecedented international pressure forced the Indian government to ask the Bank to withdraw from Sardar Sarovar.

While the World Bank did not disburse the remaining funds for Sardar Sarovar, India has so far not repaid the credit tranches that have already been disbursed. The Narmada Bachao Andolan has repeatedly called on the Bank to ensure compliance with its operational policies as long as it formally remains involved in the project. The

Bank has not fulfilled this obligation. Meanwhile, it continues to support the state governments responsible for the Sardar Sarovar Projects through other credits.

In March 2003, the World Bank came full circle regarding its position on Sardar Sarovar. It allowed a high-ranking Indian government official to tout the project at its annual "Water Week," an event celebrating its return to high-risk projects. "Though large water infrastructure projects are no doubt high risk in terms of investments and social costs, but with sound economic, social and environmental practice such projects turns up [sic] into high reward investment," Radha Singh, Additional Secretary in India's Ministry of Water Resources (and a former World Bank employee), asserted. "This has been illustrated by many projects in India. Despite adverse media publicity one of them is the Sardar Sarovar Project. The new sector strategy of the bank rightly incorporates this concept. Bank should re-engage itself in such projects with a new approach, drawing the line between sustainable development and no development."[40]

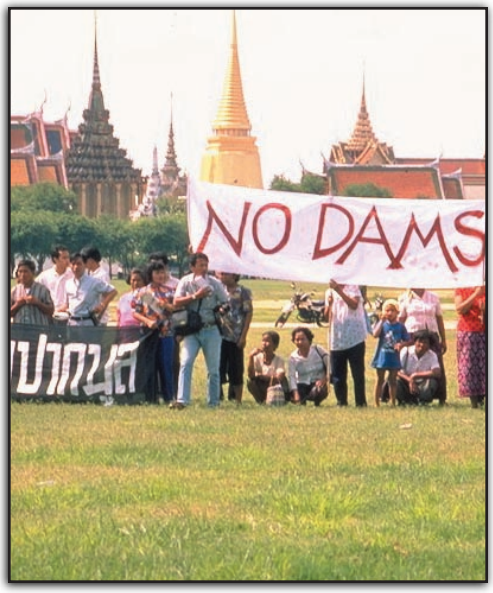
irrigation water often does not reach its intended crops.[41] Drip irrigation systems can save more than 40% of the water used, and at the same time increase production. Drinking water supply is also wasteful, with up to 40% of supplies being lost to leaks and theft.[42]

The key to resolving the global water crisis is better management. Just 0.5% of current water withdrawals would provide enough water to supply the basic daily needs of all the people currently lacking adequate access to water, and to the 2 billion people by which world population is expected to grow by 2025.[43]

Bottom-up solutions

Rainfall is strongly seasonal in many parts of the world, and water storage helps balance seasonal disparities. Without any empirical justification, the World Bank equates the need for water storage with a need for large dams. There is ample evidence to show that small, decentralized systems and ground water are more efficient and sustainable ways of storing water than large dams.

In India's dry northwestern state of Rajasthan, activists of the Tarun Bharat Sangh (Indian Youth Movement, TBS) are encouraging villagers to revive traditional ways of harvesting rainwater through small ponds and check-dams. Since 1985, TBS has helped build or restore nearly 10,000 water harvesting structures.[44] The stored water soaks into the ground and recharges groundwater. As a consequence, three rivers and many rivulets that had been dead for decades have begun flowing again. Agriculture has become possible year-round, impoverished villages have become relatively prosperous, women have been relieved from fetching water from faraway sources and laborers have returned from cities to till their fields.



According to the World Commission on Dams, 40-80 million people have been displaced to make way for large dams. The failures to account for the social impacts of dams "have led to the impoverishment and suffering of millions", the Commission says. A protest in Thailand, where the World Bank has underestimated the costs of many dam projects. (Photo: Assembly of the Poor, Thailand)

The TBS only works with communities that are prepared to assume full ownership of their water-harvesting structures. The group lends support once a village has reached complete consensus, in that every single family agrees to contribute money or labor towards the construction of a check-dam or pond. This process can take several years. It is the villagers who define the need, choose the location, design the project, do the work and maintain the structures once completed. TBS provides modest funds for labor and materials. The strong sense of ownership means that the identified solutions are adapted to local conditions and are sustainable.

TBS calculates that the water harvesting structures it has supported or encouraged in Rajasthan serve around 700,000 people. The cost covered by external contributions amounted to $1.4 million, or $2 per person. In comparison, supplying water from the notorious Sardar Sarovar Dam on the Narmada River will cost $2,000 per person.[45] The World Bank's claim that the "easy and cheap options" of storing water have been "mostly exploited" is baseless.

In India, as in other countries, since colonial times the control over water resources and the responsibility for

water supply have shifted from communities to the state. As a consequence, many state authorities are not interested in solutions that empower local communities. The Rajasthan government harassed the TBS and declared the local structures illegal for many years, but began cooperating with local initiatives in the late 1990s. The World Bank, however, is not geared towards supporting processes that are efficient and sustainable, but also democratic and inexpensive.

A solution for every region

The potential of rainwater harvesting is not limited to poor countries or to the countryside. Rain can be stored wherever it falls. In the United States, cities such as Austin and Seattle have started rainwater harvesting programs that are not only conserving water, but have also reduced flooding and pollution, created jobs and saved money.

[1] Leonard Sklar and Patrick McCully (1994) "Damming the Rivers: The World Bank's Lending for Large Dams," p. 10.

[2] World Bank "Water Resources Sector Strategy," p. 33.

[3] *The Economist* (2003) "According to Damming Evidence," 19 July.

[4] Morse and Berger "Sardar Sarovar, The Report of the Independent Review," p. xxiv.

[5] Environmental Defense Fund (1994) "Nepal's Arun Dam." Transcript, Interview with Martin Karcher, World Bank, 9 September, pp. 5f.

[6] Joe Wood quoted in Eduardo Lachica (1994) "Environmentalists Are Opposing Plans of the World Bank to Build Dam in Nepal." *Wall Street Journal,* 12 September.

[7] Briscoe "High Risk/High Reward Water Projects."

[8] See Patrick McCully (1996) *Silenced Rivers,* p. 123.

[9] Asianics Agro-Dev. International (2000) "Tarbela Dam and Related Aspects of the Indus River Basin, Pakistan," WCD Case Study, p. viii.

[10] See ibid., pp. 73ff.

[11] See ibid., pp. 105ff.

[12] Ibid., pp. 118f. for a summary of the World Bank reports and quote.

[13] World Bank (1994) "Resettlement and Development," chapter 5, p. 14.

[14] Ibid., p. 7.

[15] World Commission on Dams (2000) *Dams and Development,* p. xxviii.

[16] Ibid., p. 130.

[17] Ibid., p. 207.

[18] Ibid., p. 208.

[19] Ibid., pp. 213ff.

[20] Ibid., pp. 171, 316.

[21] World Bank (2001) "Summary of Discussion of the Joint Meeting of Executive Directors of the Bank and IDA and the Board of Directors of IFC" 18 December, p. 19.

[22] See International Rivers Network (2002) "A Review of the World Bank's Inspection Panel Report on the Bujagali Project," 10 June. Available at http://www.irn.org/programs/bujagali/IRN_comment.pdf

[23] See Prayas Energy Group (2002) "The Bujagali Power Purchase Agreement — An Independent Review." Available at http://www.irn.org/programs/bujagali/bujagalippa-review.pdf

[24] For a comprehensive critique of the Bujagali project, see Peter Bosshard (2002) "Pervasive Appraisal Optimism," 14 May. Available at http://www.irn.org/programs/bujagali/wb.bujagalipaper.pdf,.

[25] Briscoe "High Risk/High Reward Water Projects."

[26] Operations Evaluation Department (1996) "The World Bank's Experience With Large Dams: A Preliminary Review of Impacts." World Bank, p. 6.

[27] See Patrick McCully (1997) "A Critique of 'The World Bank's Experience with Large Dams: A Preliminary Review of Impacts'," IRN, 11 April.

[28] OED "The World Bank's Experience With Large Dams," p. 33.

[29] Ibid., p. 8.

[30] Operations Evaluation Department Precis (1996) "World Bank Lending for Large Dams: A Preliminary Review of Impacts." World Bank, p. 1.

[31] WCD *Dams and Development,* p. 69.

[32] Ibid., pp. 39f.

[33] Robert W. Bacon, John E. Besant-Jones and Jamshid Heidarian (1996) "Estimating Construction Costs and Schedules," World Bank Technical Paper No. 325, p. 29.

[34] WCD *Dams and Development,* pp. 46ff., 54ff., 58.

[35] Former Commissioners, World Commission on Dams (2002) Letter to World Bank President Wolfensohn on Draft Water Sector Strategy, 12 July.

[36] Rajiv Gandhi, 1986 Address to the Conference of State Irrigation Ministers, quoted in L.C. Jain, (2001) *Dams vs Drinking Water,* p. 26.

[37] See Arundhati Roy (1999) "The Greater Common Good" and Habitat International Coalition (2002) "The Impact of the 2002 Submergence on Housing and Land Rights in the Narmada Valley" for vivid accounts of the fate of the Narmada dispossessed.

[38] Morse and Berger "Sardar Sarovar, The Report of the Independent Review," p. 349.

[39] Ibid., p. xxv.

[40] Radha Singh (2003) "A Presentation on High Risk, High Reward Water Projects." World Bank, Water Week 2003, Session 4: High Risk/High Reward Water Projects, 4 March.

[41] WCD *Dams and Development,* pp. 138ff.

[42] Ibid., p. 158.

[43] D.C. Sutherland and C.R. Fenn (2000) "Assessment of Water Supply Options," Thematic Review IV.3. Prepared as an input to the World Commission on Dams, pp. 78f.

[44] Patrick McCully (2003) "Bankrupt Math: World Water Establishment Continues to Promote Flawed Solutions to Water Problems." *World Rivers Review,* February, pp. 3-5.

[45] Ibid., p. 5.

An Alternative Approach

The Bank has promoted large-scale high-risk projects, correlating risk with potential reward. While this relationship may hold true for individual investors buying high-risk shares or bonds, there is no evidence to suggest this is a valid approach for the promotion of sustainable development. In fact, there is a significant amount of development literature suggesting that small-scale, locally based projects are more sustainable and better targeted to the needs of the poor. These types of community-based projects provide more appropriate examples of pro-poor development.

The Bank itself espouses community-driven development (CDD) in its Poverty Reduction Strategy Sourcebook. According to a landmark World Bank study, "Voices of the Poor", in which 60,000 people in 60 countries were interviewed, respondents felt that the greatest difference to their lives could be made through their own organizations, to enable them to negotiate with government, traders, and NGOs; direct assistance through community-driven programs so they can shape their own destinies; and local ownership of funds, so they can end corruption.

The Bank itself says that community-driven development can make poverty-alleviation programs more responsive to the demands of the poor and build social capital. Community-developed facilities, such as health clinics, schools, and water supply systems, tend to have higher use rates and are better maintained than those generated by investment decisions made outside the community. Community management of development projects usually results in lower costs. Studies of community-organized irrigation systems in Asia found that systems constructed and operated by the farmers themselves yield greater agricultural productivity than more modern systems constructed by government agencies with external assistance.[1] Studies of water management have found that small, decentralized systems are more efficient and effective at storing and saving water.

Community-driven development can be particularly valuable for the protection of natural resources. Local communities derive significant direct and indirect economic benefits from forests, for example. These include wild fruits, nuts, vegetables, animals, fuelwood, utensils, and other implements, as well as watershed protection and other environmental services. These benefits are rarely measured, and are difficult to quantify. In large-scale projects, these benefits are often discounted. In community-driven development processes, there are much greater opportunities to identify these benefits and develop a plan to ensure their long-term preservation through the protection of the natural resource base. This reality is increasingly driving forestry management programs which recognize that without community involvement, sustainable forest management is often illusory.

The World Bank seems to be of two minds on community-driven development. In the past several years, the Bank has directed more money to such programs and devoted considerable rhetorical attention to participatory processes. However, while admittedly at a relatively early stage, the Bank's community-based development programs have not resulted in significantly more favorable development outcomes compared to its other programs. Initial reviews of the Bank's CDD programs finds that the Bank has not changed internal processes to adapt to the increased complexity of these programs and that there is a lack of continuity and long-term commitment. Nor is the Bank's "time-bound project approach …conducive to the learning-by-doing" approach of CDD.[2] Considering the Bank's renewed emphasis on high-risk, centralized, large operations, its community-driven development programs may be severely imperiled.

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[1] For more information about the World Bank and community-driven development see http://lnweb18.worldbank.org/ESSD/sdvext.nsf/09ByDocName/BasicConceptsPrinciplesWhyCDD

[2] Operations Evaluation Department (2003) "Community-Driven Development: Lessons from the Sahel." World Bank, pp. 33-34.

Conclusion: The Poor Track Record of the World Bank's High-Risk Projects

The Bank has traditionally claimed that through its involvement, it can improve the social and environmental performance of risky projects. India has often been a laboratory and trailblazer for the World Bank's involvement in such high-risk projects. The Morse Commission and the Inspection Panel showed that even in the case of the Sardar Sarovar Dam and the Singrauli thermal power plants — supposedly two of the Bank's best-studied projects — safeguard policies were routinely flouted. In 1993, as the World Bank pulled out of Sardar Sarovar, it stopped lending for new thermal and hydropower projects in India altogether.

Under James D. Wolfensohn, the World Bank became more cautious about its involvement in high-risk projects across countries and sectors. In its wake, other financial institutions such as export credit agencies and private banks began developing or strengthening their own environmental guidelines. The increasing prudence of financial institutions caused a serious funding shortfall for large dams. This deadlock led to the creation of the World Commission on Dams in 1997. At that time, President Wolfensohn was an avid supporter of so-called multi-stakeholder processes. Civil society observers welcomed the Bank's growing prudence regarding high-risk projects and its openness to independent assessments as a modest example of progress under the Wolfensohn presidency.

The WCD report documented the serious environmental and social impacts of large dams. It showed that alternative options were available, and put forward a series of recommendations for the development of future water and power sector projects. When the consensus report was published in November 2000, it was time for the World Bank to take a stand. The Bank restricted its consultations to the water and energy bureaucracies of the main dam-building countries, and used their predictably negative reactions to decide against adopting the WCD recommendations.

This step was part of a larger policy backlash. In 2001, the Bank launched the "independent" Extractive Industries Review, which soon turned out to be vastly different from the WCD process. The World Bank appointed the only reviewer and provided him with an insufficient budget, while it continued to finance risky oil, gas, and mining projects. In 2002, the Bank rescinded its ban on financing commercial logging activities in primary tropical moist forests. In early 2003, the Bank officially announced a return to a "high-risk/high-reward" strategy in the water sector.

High-risk projects — back in style

India's government is planning a megaproject to link 37 of the country's major rivers by 2016. The plan involves building at least 32 large dams, 74 big reservoirs and about 10,000 km of canals at an estimated cost of $200 billion. It would involuntarily displace about 3 million people. Scientists and civil society organizations quickly denounced the scheme as an absurd and environmentally destructive waste of resources, noting that these resources would be better spent to make existing water infrastructure more efficient, and to promote locally adapted solutions.

The Indian rivers interlinkage scheme was favorably presented at a session on "high-risk/high-reward" projects at the World Bank's Water Week in March 2003. Both the main architect of the Bank's "high-risk/high-reward" strategy and the Bank's senior water advisor recently took up new assignments with responsibility for South Asia. India's government is already lobbying the Bank to support its rivers interlinkage scheme, which could become one of the first prominent test cases of the renewed "high-risk/high-reward" strategy.

It is remarkable that Bank management has succeeded in re-launching a high-risk strategy without providing any evidence of the superior rewards of high-risk projects. The World Bank has never evaluated the high-risk

projects that it financed in the past. In fact, OED evaluates the sustainability and development impacts of projects against many variables, but the level of environmental or social risk (for example, as expressed by a project's environmental impact categorization) is not one of them.

This report has examined the track record of high-risk projects in the forestry, water, and oil, gas and mining sectors. It finds that involuntary displacement has typically led to the loss of economic livelihood and the breakdown of community relations, and has impoverished millions. Mining, pipeline and dam projects have often created environmental disasters, and the World Bank generally has not succeeded in mitigating negative social and environmental impacts. High-risk projects have often been associated with the repression of local resistance. The increasing role of private investors has undermined transparency and other means of accountability, by subjecting crucial aspects of project information to "business confidentiality" constraints.

This report asserts that alternatives to such development disasters exist. The World Bank is under pressure to reach lending targets, and has an institutional bias towards centralized, top-down, capital-intensive projects. Therefore, it is not well-suited to finance decentralized, participatory and democratic processes that are adapted to local needs and circumstances.

A legacy of environmental degradation

"Decades of mineral mining have left a legacy of environmental degradation and uprooted the social fabric of many communities in PNG, while the revenues have not been equally redistributed. Human rights violations, alcoholism, prostitution and AIDS are on the rise at mine sites around the country."

Matilda Koma, Environmental Watch Group, Papua New Guinea, July 2003

No lessons learned

The new water sector strategy admits that some of the World Bank's "greatest failures" in the past involved the financing of projects that "were planned and built without sufficient attention to social and environmental consequences." Yet the document insists that the Bank and developers have learned from past mistakes, and that environmental and social standards will be met in future high-risk projects. It claims that "[i]n recent decades thinking and practice have changed dramatically."[1] This claim is not new. For more than 20 years, the Bank has frequently admitted that it made errors in the past, but that it has learned from them. The water sector strategy document does not offer any evidence to support this claim. In fact, it directly contradicts important conclusions of OED's 2002 evaluation of the water sector strategy.[2]

The people who are being resettled for the Bujagali Dam or who are suffering health impacts from the Chad-Cameroon pipeline would probably also dispute the claim that the World Bank has learned its lesson from past mistakes.

The analysis in this report and many internal evaluations suggest that the Bank does not have the instruments in place to successfully implement high-risk projects:

- The World Bank has failed to effectively mainstream social and environmental concerns into its decision-making. "[T]he Bank has done little institutionally to promote, monitor, or otherwise make mainstreaming happen," OED found in 2002.[3] The Bank continues to have an institutional bias against processes that are participatory, and adapted to local circumstances. If it assesses different options at all, it usually prioritizes expensive, large-scale projects for internal reasons — even if they involve higher risks.

- In 1992, the Bank's Wapenhans task force found that project appraisal reports were considered "marketing devices" by Bank staff. In 1994, the Bank's resettlement report also criticized what it termed "excessive appraisal optimism."[4] Experience with ongoing projects such as the Bujagali Dam demonstrates that the quality of appraisal is still low. Project benefits are routinely overstated, while risks are downplayed. OED's 2002 review of the Bank's performance on the environment found that the quality of environmental assessment has deteriorated during President Wolfensohn's tenure.

- World Bank safeguard policies are insufficient or lacking altogether in many critical areas. For example, the Bank does not have any human rights policy, in spite of the repression that is often associated with oil, gas, mining and dam projects, nor does it have an overarching social policy. Its resettlement policy does not fully recognize crucial livelihood issues such as traditional land rights or access to common resources such as forests, rivers and communal lands.

- The evidence of this report and numerous internal evaluations demonstrate that even where safeguard policies exist, the Bank's project supervision and policy compliance are weak. The Inspection Panel has documented the violation of key operational policies in high-risk projects in India, Chad, Uganda, China, Brazil and other countries. As recently as 2002, OED noted: "The Bank's performance on safeguard policies remains contentious. Implementation has been mixed. … Compliance shortfalls highlighted in highly visible projects have cast doubt on the integrity of quality assurance processes."[5]

- In response to policy compliance failures, the World Bank has not strengthened its appraisal, monitoring and supervision processes; OED in fact found "no regular program for monitoring the implementation and sustainability for environmental measures during the subsequent life of the project."[6] Instead, the Bank has weakened applicable policies through the conversion of detailed operational directives into streamlined operational policies. For example, as part of the resettlement policy's conversion, the Bank denies people the right to receive compensation for land that their families had owned and tilled for centuries if they did not hold formal land titles.

In conclusion, the World Bank has not demonstrated its ability to analyze, contain and mitigate risks in the project it finances. In fact, it has actually weakened its capacity to do so in recent years. The Bank has not learned lessons from past failures, but instead has disregarded the evidence of earlier high-risk projects and the conclusions of many internal evaluations in devising its renewed "high-risk/high-reward" strategy.

Who will pay the price?

Who will bear the risks and who is likely to reap the rewards of a high-risk strategy? Obviously, the groups that are negatively affected by mines, dams or other large infrastructure projects are very different from the groups that benefit. Typically, such project benefits accrue to private investors, equipment suppliers, the state, and in the case of infrastructure services, to industrial, urban and rich rural consumers. The costs are typically borne by poor rural communities, and most of all by vulnerable groups — women, children, landless peoples and indigenous communities. The WCD report states that "a dam can effectively take a resource from one group and allocate it to another," and if the benefits are not redistributed, "such outcomes are unacceptable on equity grounds."[7]

A high risk of further deadlock

Since the Bank has announced its renewed high-risk strategy, private investors have pulled out of two of its crown jewels, the Nam Theun 2 dam in Laos and the Bujagali Dam in Uganda. This indicates that the new strategy will prolong the deadlock in important sectors, and will block more sustainable alternatives from being developed.

Most of the players involved in World Bank projects are insured against risks. This is true for the World Bank itself, Bank staff, equipment suppliers and other contractors and (as far as political risk is concerned) private investors. Poor, project-affected people, who are the most vulnerable group socially and economically, do not receive such guarantees. The Bank's policy on involuntary resettlement for example, does not include any guarantees for displaced people to restore their earlier livelihoods. It only stipulates that "[d]isplaced persons should be assisted in their efforts to improve their livelihoods and standards of living or at least to restore them".[8] The World Bank offered so-called self-employment schemes, mainly consisting of entrepreneurial training, to rehabilitate tens of thousands of people displaced for Bank-funded coal mines and thermal power plants in India throughout the 1990s. Thousands of people who had hardly been integrated into the cash economy and who had always lived off their land were put into a situation where the livelihood of their families depended on their luck and skills as entrepreneurs. Not surprisingly, most project-affected people in Singrauli experienced great misery. The World Bank would not expect equipment suppliers or private investors to face similar risks.

When the positive and negative impacts of projects are distributed unevenly, local communities face particularly high risks. In spite of this, the World Bank has a poor track record of analyzing the distributional impacts of its projects. An internal evaluation of the World Bank's involvement in extractive industries found that the Bank fails to assess and measure the distribution of costs and benefits in such projects.[9] This is astounding since particularly in mining projects, costs and benefits are distributed extremely unevenly.

World Bank documents that advocate a return to a high-risk strategy are vague or even silent on the issue of who

The Case for Reparations

Jacklyn Membup lives near the Lihir gold mine in Papua New Guinea. The Lihir mine was established with support from MIGA and dumps millions of tons of toxic tailings directly into the sea. "There is only one thing that we ask," Membup says. "Our fish are dying, our children have ear problems, the sea comes closer to the land, whales are stranding and our skin is so itchy, but we don't know why this is happening. Can the World Bank investigate what is going on, clean up and compensate us?"

The principle of reparations is rapidly gaining international recognition. The Convention Against Torture which entered into force in 1987 stipulates: "Each State Party shall ensure in its legal system that the victim of an act of torture obtains redress and has an enforceable right to fair and adequate compensation, including the means for as full rehabilitation as possible."[10] Swiss, German and Austrian banks and companies are paying reparations to Holocaust survivors and slave laborers, and victims of human rights abuses under apartheid are suing companies that supported the South African regime for reparations. The WCD has also accepted the principle of reparations for damages caused by dam projects (see below).

The environmental legacy of high-risk projects that is documented in this report constitutes an ecological debt owed by the World Bank to borrowing countries. Project-affected communities, peoples movements and NGOs are increasingly calling for environmental restoration as well as reparations for damages caused by World Bank projects. In 1997, dam-affected people from around the world called for action to be taken to restore damaged environments in the Curitiba Declaration.[11] The Oilwatch International Network demanded in 2000 that a study on the impacts of the World Bank's energy policies be carried out, and a fund for the restoration of affected zones be created.[12] The international campaign on ecological debt is also working towards the restoration of areas degraded and destroyed by unsustainable development projects.[13] And in April 2003, indigenous peoples' groups stated in a Declaration on Extractive Industries: "Measures should be taken to rehabilitate degraded environment, farmlands, forests and landscapes and to restitute our lands and territories taken from us … Appropriate mechanisms must be established to address these outstanding problems with the full participation of the affected peoples and communities."[14]

The Chixoy Dam in Guatemala is a concrete example of the legitimacy of the growing call for reparations. The World Bank financed this dam in 1978 while Guatemala was ruled by the brutal dictator, General Romeo Lucas Garcia, who waged a war against Mayan communities. Many villagers of the Rio Negro region refused to relocate from their ancestral lands. In four different massacres, more than 400 Mayan people from Rio Negro were tortured, raped and killed by the army and paramilitary troops between February and September 1982. The World Bank looked away. The Bank kept silent about the massacre until 1996, when human rights groups revealed the horror story to the world. The Bank's own internal investigation subsequently absolved it of responsibility.

The surviving Rio Negro community is currently documenting the damage and suffering caused by the World Bank project in an effort to identify and prioritize the need for reparations. They demand the restoration of their quality of life, which includes replacement land of equivalent quantity and quality, health and education services. They also demand that a monument be built to commemorate the 400 people massacred, and that those responsible for the atrocities be brought to justice. The Chixoy experience demonstrates that reparations are not only a matter of material compensation, but also of honoring the victims of development projects and establishing justice. Reparations are not simply about monetary compensation.

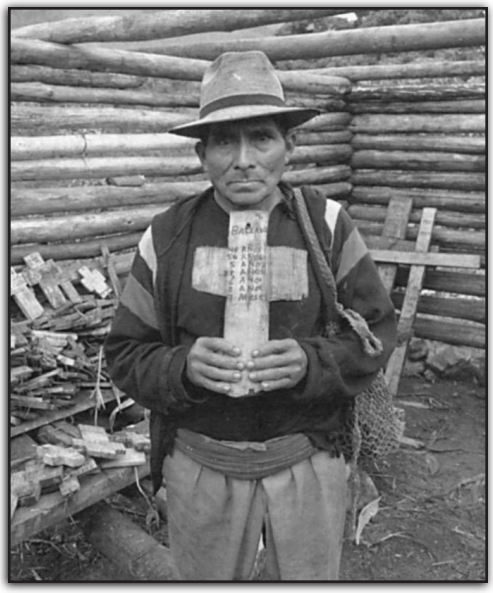
The Chixoy Dam has not only caused horrible suffering for the affected people. It has also been plagued by enormous environmental and technical problems and cost overruns due to corruption. According to Rafael Bolanos, dean of the School of Civil Engineering at Guatemala's San Carlos University, "the dam was the biggest gold mine the crooked generals ever had."[15] Yet even when projects fail, loans and credits from the Bank must be repaid. In fact, Guatemala has fully repaid the World Bank's Chixoy loan, which has added an economic burden to the social and environmental impacts of the project.

To date the World Bank has refused to assume responsibility for the damage caused by its lending operations. While its loans and credits always need to be repaid, the Bank itself has never been forced to pay for the destruction its projects caused. The risks of lending operations should motivate lenders to be diligent and cautious in appraising projects. However, since it is immunized from the consequences of its actions, the World Bank can afford to deal negligently with such risks. Debt cancellation and reparations are not only a matter of justice. These measures would also encourage the Bank to strengthen its appraisal capacities and to avoid repeating past errors.

Much thought needs to go into designing reparations mechanisms. The World Commission on Dams recommended the appointment of committees of legal experts, dam owners, affected people and other stakeholders to develop criteria for assessing claims and enabling joint negotiations.[16] The International Accountability Project proposes the creation of a "Development Effectiveness Remedial Team" that would make recommendations to the Bank's Board of Directors for designing and supervising remedial measures to resolve problems associated with existing projects.[17]

Several suggestions have been made regarding sources of reparation funds, including a reparation tax, or part of the Bank's net income. In order to make these funds work effectively, the Bank should coordinate its approach to reparations with governments and other financial institutions. It is imperative that processes and mechanisms are developed and implemented with effective participation and approval of affected communities.

will be affected by higher risks, and how these risks will be mitigated. The Water Resources Sector Strategy simply states that for high-risk projects, "there will be an agreed-upon corporate strategy for ensuring that the objectives of the safeguard and other operational policies are respected."[18] The Strategy does not identify the social groups that will be exposed to higher risks, and the groups that will reap greater rewards. Similarly, it does not suggest mechanisms by which the increasing risks can be mitigated and benefits redistributed. The new document provides in fact more details on how to deal with the risks and incentives that World Bank staff and managers face in high-risk projects.[19] "The proposed risk assessment focuses primarily on the risks to the World Bank from supporting large dams," the members of the WCD warned after reading a draft of the Strategy, "rather than the economic and financial risks, the environmental risks, or the risks to affected peoples from dams."[20]



Many mining, dam and forestry projects have caused massive human rights abuses. More than 400 people were massacred in 1982 when they opposed the World Bank's Chixoy Dam in Guatemala. This Mayan priest and other survivors of the massacre demand compensation for the losses that they suffered, and a monument to honor the victims. (Photo credit: Jonathan Moller)

Back to square one

As the final year of the Wolfensohn presidency begins, the World Bank is back to square one on social and environmental matters. It is prepared to put poor people — the people who are supposed to be at the core of its mandate — and the environment at great risk for projects that have a questionable track record of providing commensurate rewards in the first place. It is prepared to do so without having adequate policies and mechanisms in place to analyze, contain and mitigate the respective risks.

The World Bank will find it difficult to actually implement its high-risk strategy. Local communities, social movements and non-governmental organizations are better organized today than they were 10 years ago. The global review of the WCD and other investigations have created a large knowledge base on the impacts of earlier high-risk projects. Many export credit agencies, private banks and investors have strengthened their environmental guidelines even as the World Bank has weakened its own policies. As a result, such institutions may become increasingly reluctant to co-finance questionable Bank projects. The most glaring example of this emerging trend is that investors pulled out of the Nam Theun 2 and Bujagali Dams, the two crown jewels of the Bank's high-risk water sector strategy, within months of the endorsement of the new "high-risk/high-reward" approach.

Most importantly, the international public is not prepared to accept large-scale environmental destruction, social deprivation and human rights abuses in World Bank projects any longer. In 2002, OED warned: "Unless and until … the environment becomes part of the Bank's core objectives and a normal part of doing quality analysis, projects, and strategies, the tension between the Bank and its stakeholders that has characterized the past decade will continue, and probably intensify."[21]

Recommendations

This report demonstrates that the World Bank's new "high-risk/high-reward" approach compounds the mistakes of the past with high costs to the environment and to poor communities. Internal evaluations and the report's evidence show that the World Bank is not able to adequately manage high risk operations. The Bank's claims that its engagement in high-risk projects serves to improve project outcomes rest on dubious assumptions.

It is in the self-interest of governments and the World Bank to address these problems head-on. Environmental degradation and increasing inequality, which leave large parts of the world's population disenfranchised, are feeding into the growing social disintegration and political instability in many developing countries. A re-engagement in contentious high-risk projects will further damage the World Bank's battered reputation and call into question the institution's legitimacy. Furthermore, the high-risk projects that the Bank has recently promoted resulted in stalemate rather than improved service delivery for governments and communities.

From the report's findings a series of recommendations emerges. They include the strengthening of do-no-harm policies and mechanisms, the support of alternatives and the reparation of the unresolved legacy of past projects. Several recommendations have been presented before, including those from official sources. Some of the recommendations are addressed to the World Bank specifically, others to the international community at large. Many recommendations are also relevant for other public international financial institutions, export credit agencies and development assistance more broadly.

General recommendations

- The World Bank, other financial institutions, governments, industry, legal experts, NGOs and affected communities should negotiate the creation of participatory mechanisms and criteria to repair the past damage of development projects;
- The World Bank's internal incentive system should be restructured to reward management and staff for policy compliance and project performance based on environmental and social indicators, including the distribution of costs and benefits, instead of on the basis of quantitative lending targets;
- Systemic conflict of interest situations where the same management and staff are responsible for project execution, monitoring and evaluation should be eliminated;
- Human rights dimensions should be included in World Bank policies and projects;
- The distributional implications of the costs and benefits of Bank operations should be made explicit and project outcomes should be monitored and reported;
- Social and environmental issues should be explicitly included in World Bank loan and credit covenants;
- Project implementation and outcomes should be monitored and evaluated beyond completion of disbursements to cover the entire project cycle and loan repayment period, while project monitoring and completion reports should be made public;
- The rule of free, prior and informed consent of locally affected communities in decisions that directly impact their livelihoods should be institutionalized;
- A systematic, independent evaluation of high-risk World Bank projects should be conducted;
- The World Bank is not well placed to support alternative, participatory, low-risk/high-reward development processes and projects. Governments should support such alternatives through appropriate mechanisms.

Sector recommendations

Extractive industries

- The World Bank should establish a plan to phase out investments in the extractive sectors;
- The Bank should immediately abstain from supporting new oil, gas, and mining projects in countries where inadequate rule of law, weak institutions and poor governance undermine environmental sustainability and the social equity of investments;
- The Bank should immediately establish "no-go" areas, such as protected areas and areas of armed conflict, where it will not promote extraction, as well as ban certain technologies, such as riverine and submarine tailings disposal;
- The Bank should focus its remaining extractive industries investments towards mine closure, job transition, environmental restoration, and should prioritize renewable energy projects;
- Government and industry should be required to disclose host country and production-sharing agreements and revenues paid into government coffers from extractive industry projects.

Forests

- The World Bank should examine and account for the impact on forests of all types of Bank lending and non-lending activities;
- The Bank should refuse to finance activities that can lead to forest loss, especially in primary forests — whether they are tropical humid, dry, temperate or boreal forests;

- The Bank should promote the recognition of customary land rights of forest-dependent people and support small-scale projects developed in consultation with local people for alternative income generation;
- The Bank should help countries build the capacity to combat illegal logging.

Water

- Funding for large dams should cease until the World Bank adopts the relevant recommendations within the policy principles and guidelines of the WCD report into its safeguard policies;
- The Water Resources Sector Strategy should be suspended, and a new sector strategy should be developed based on the findings of the WCD, earlier World Bank evaluations and broad-based consultations with affected parties.

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[1] World Bank "Water Resources Sector Strategy," p. 4.

[2] See OED "Bridging Troubled Waters."

[3] OED "Promoting Environmental Sustainability in Development," p. 19.

[4] See World Bank, "Resettlement and Development," p. 5/14.

[5] OED, "Promoting Environmental Sustainability in Development," p. 19.

[6] Ibid., p. 20.

[7] WCD *Dams and Development,* pp. 124, 120.

[8] World Bank (2001) Operational Policy 4.12, Involuntary Resettlement, paragraph 2 (c).

[9] OED, OEG, OEU "Extractive Industries and Sustainable Development," Volume III, pp. 4f.

[10] U.N. Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, Article 14.

[11] "Declaration of Curitiba: Affirming the Right to Life and Livelihood of People Affected by Dams," March 14, 1997. Available at http://www.irn.org/programs/curitiba.html

[12] Oilwatch (2000) "International Statement on the Occasion of the World Bank and IMF Meetings," 15 April.

[13] The environmental organization Acción Ecológica (Ecuador) and Friends of the Earth International are promoting a campaign to force industrial countries to accept their enormous environmental liabilities. www.deudaecologica.org

[14] "Indigenous Peoples' Declaration on Extractive Industries," April 15, 2003. Available at http://forestpeoples.gn.apc.org

[15] Cronica quoted in Witness for Peace (1990) "A People Dammed, The Impact of the World Bank Chixoy Hydroelectric Project in Guatemala," 4 May, p. 27.

[16] WCD *Dams and Development,* p 229.

[17] Dana Clark (2003) Letter to Carol Brookins, U.S Executive Director to the World Bank, 23 June.

[18] World Bank, "Water Resources Sector Strategy," p. 54.

[19] Ibid., pp. 49ff.

[20] Former Commissioners, WCD Letter to Wolfensohn.

[21] OED "Promoting Environmental Sustainability in Development," p. 24.

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Gambling with People's Lives

What the World Bank's New "High-Risk/High-Reward" Strategy Means for the Poor and the Environment

Large dam, forestry, oil, gas and mining projects funded by the World Bank have displaced and impoverished millions of people, devastated ecosystems, and generated repression and corruption. Internal investigations have found that the Bank routinely underestimates the risks and overestimates the benefits of its projects.

In the face of sustained international criticism, the World Bank became more cautious in approving projects in the 1990s. But the Bank's caution has now come to an end. Hardliners have taken over. The Bank recently decided to embark on what it calls a "high-risk/high-reward" strategy. Big is beautiful again, and megaprojects are back in style.

This new report examines the World Bank's track record of high-risk projects in the dam, oil, gas, mining and forestry sectors. It looks at how the Bank deals with risk, to what extent it has protected the poor and the environment from negative impacts, and whether it has learned from past mistakes. It presents alternatives to high-risk projects and puts forward recommendations for change.

"Gambling with People's Lives" is a joint report published by Environmental Defense, Friends of the Earth and International Rivers Network.

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